FERDI CHAIR

Impact Investing

Report

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# Impact investing in Africa: a 2024 analytical map

Florian Léon, Economist-Researcher, FERDI

Sitraka Rabary, Research Assistant, FERDI

Impact investing has attracted considerable interest from both academics and practitioners, regardless of their direct involvement in the practice. Despite its growing visibility, there is a lack of evidence on impact investing in Africa. This report seeks to fill that gap. First, we clarify the definition of impact investing and its specificities in Africa. Second, we use a newly developed database of 255 impact investors operating on the African continent to examine the dynamics and characteristics of the sector in Africa. The Chair's analysis provides several policy recommendations for better financing, enhanced financial sustainability, and improved quality of impact assessment and measurement.

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# Preface

FERDI created an Impact Investing Chair in May 2022. Its board is composed of two practitioners, Mariam Djibo (Managing Director of Advans Côte d'Ivoire) and Jean-Michel Severino (Chairman of Investisseurs et Partenaires), and an academic researcher: Jean-Louis Arcand (President of the Global Development Network). This report was prepared under their guidance by Sitraka Rabary (research assistant at FERDI) and Florian Léon (economist-researcher at FERDI.

The three main objectives of the Chair are:

1. Conduct research on impact investment, its methodologies, its goals, and the conditions of its support by public actors, with a focus on international development and Africa. This report is part of that objective.
2. Provide training and capacity building on issues affecting the impact investing sector, such as impact measurement.
3. Animate the sector through virtual and physical exchanges among its actors and between them and their stakeholders.

This report is a milestone for the Chair and aims to provide a fresh look at the state of impact investment in Africa in 2024. It will also serve as a support for an international conference organized by FERDI and UICI (International University of Ivory Coast) in June 2024 in Abidjan and will officially launch the Impact Investing Chair.

## Executive summary

In the past years, impact investing has gained a significantly higher visibility in the development policy debate, at the international and country levels. There have been signs of its growing importance on the ground in Africa.

FERDI's Impact Investing Chair aims to explore and understand this trend, contribute to the quality and expansion of impact investing, and address the policy, financial, economic, managerial, and legal issues raised by its emergence. To this end, this report provides an overview of impact investing in Africa in 2024.

This report bases the selection of impact financial companies in Africa on two criteria: (i) the intentionality of the impact, and (ii) the additionality of the activity. These criteria distinguish them from commercial firms, which also seek financial returns, have impacts and may seek excellent environmental, social and governance (ESG) practices. Both characteristics can be reflected in impact investors' practices, with the following main implications for them: (i) profitability search but also a willingness in many cases to accept a below-market return; (ii) the definition of a mandatory impact thesis; (iii) the direction of their activity to underfunded areas and sectors; and (iv) impact measurement. As a consequence, impact investing differs from related concepts such as philanthropy or socially responsible investing, and the aforementioned characteristics must be met when talking about impact investing.

Our report distinguishes five main actors who build the impact investing ecosystem: (i) fund owners; (ii) capital providers; (iii) fund managers; (iv) investees; and (v) final beneficiaries. The term "impact investors" is used in this survey only for the fund managers, a role that is often confused with that of the capital allocator.

This FERDI survey identifies key stylized facts about impact investing in Africa thanks to a new hand-collected data on impact investors in Africa built by the FERDI Impact Investment Chair. The database identifies 255 investors active on the continent, with around 25 billion dollars of assets under management (AUM): actual net flows corresponding to those assets are impossible to measure but probably reach only a few billion dollars. This looks modest when compared to GDP or gross investment, but impact investors play a significant role for start-ups, SMEs, poor and fragile countries and some policy areas like climate, gender, or health. On the other hand, impact investors are quasi-absent from the oil and gas sectors – only one impact investor[1] from our database invests in this sector –, of financial sectors (except for microfinance of course), or big telecoms and in general mature businesses. This makes the impact of impact investing difficult to assess but it is probably critical for the areas it focuses on.

The FERDI database also reveals some important facts. First, most investors are not based in Africa (mainly in North America and Europe). Second, investors often finance the same investees. Third, a handful of mega-investors account for a large share of total investment

[1] The ICF Debt Pool headquartered in the UK is investing in the alternative fuels' sector in Sierra Leone, a part of the oil & gas sector
https://www.cordiantcap.com/investors/icf-debt-pool/
https://wp-cordiantcap-2021.s3.eu-west-2.amazonaws.com/media/2022/05/161231-ICF-DebtPool-Presentation-final.pdf

according to their assets under management's weight. The top 5 account for more than 58% of the assets under management.

We document a real dynamic of the sector in Africa (two-digit growth rate in volumes) although lower than in other regions in the World (as North America and Europe). According to interviews with investors, impact investing meets multiple barriers in Africa such as macroeconomic shocks, exchange rate depreciations, political instability, human resources challenges, funding limitations, and market structures leading to limited exit possibilities. We also highlight that the rate of birth of impact investors has dramatically slowed in the past three years, despite a raising visibility in the development policy landscape and new financial initiatives by major public and private players, while still raising unresolved questions.

Based on the Chair's analysis, we make three important categories of policy recommendations regarding a better funding of the sector, more focus on its financial sustainability, and improvement of its quality including in impact assessment and measurement are provided.

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## Acronyms

AfDB: African Development Bank

AGF: Africa Guarantee Fund

AUC: African Union Commission

AUM: Assets Under Management

ESG: Environmental, Social and Governance

FDI: Foreign Direct Investment

FERDI: Foundation for Studies and Research on International Development

GABV: Global Alliance for Banking on Values

GDP: Gross Domestic Product

GGFCE: General Government Final Consumption Expenditure

GIIN: Global Impact Investing Network

GIIS: Global Impact Investing Standards

GRI: Global Reporting Initiative

GSG: Global Steering Group

HIPSO: Harmonized Indicators for Private Sector Operations

IDB: Inter-American Development Bank

IFC: International Finance Corporation

IMM: Impact Measurement and Management

IRIS+: Impact Reporting and Investing Standards

JETRO: Japan External Trade Organization

JII: Joint Impact Indicators

KPI: Key Performance Indicators

Mlds: Billion

ODA: Official Development Assistance

OECD: Organization for Economic Co-operation and Development

PRI: Program Related Investment

SASB: Sustainable Accounting Standards Board

SDG: Sustainable Development Goal

SRI: Socially Responsible Investment

SSP: Social Service Provider

UNCTAD: United Nations Conference on Trade and Development

UNDP: United Nations Development Program

UNECA: United Nations, Economic Commission for Africa

UNEP: United Nations Environment Program

# Introduction

In recent years, the private investment landscape has witnessed a notable shift with the emergence of interest in its non-financial dimensions. It is reflected in the development of environmental, social, and governance (ESG) considerations and in impact investing.

The term "impact investing" is widely attributed to a 2007 meeting at the Rockefeller Foundation's Bellagio Center that brought together a diverse group of individuals from finance, philanthropy, and academia. During this meeting, participants discussed the need for new approaches to investing that could move beyond the dichotomy of pure for-profit and traditional philanthropy. Indeed, these emerging approaches reflect a broader understanding that financial gain can be pursued alongside positive social and environmental outcomes.

The emergence of impact investing as a distinct concept marks a pivotal shift in the convergence of finance and social impact. While there is growing academic and policy interest in these new private investment practices, knowledge and understanding in this area remains limited, particularly in developing countries, while the sector is growing.

The Impact Investing Chair aims to provide a better understanding of this sector in Africa and to propose an analysis of the issues that still arise in the development of this sector. It would allow to contribute to a standardization of the concept, which is crucial for its legitimacy, to a better definition of its scope of action and an improvement of its quality. This starts by analyzing its operations, characteristics and objectives.

Therefore, the main objective of this report is to provide a deeper understanding of impact investing in Africa. It is divided into two main sections, each providing a different insight into the world of impact investing, with a focus on the African market.

The first section focuses on the definition of impact investing. As there is no common definition used by practitioners and researchers, this section aims to characterize what impact investing really is, contrasting it with its closest concepts (such as ESG). The structure of its ecosystem is presented, in order to provide a better understanding of how it works.

The second section presents some stylized facts about impact investing in Africa, thanks to a new database created by the Chair and interviews with investors. This part allows to extract novel information on impact investing in Africa.

# I. Defining impact investing

This section starts by defining the scope of impact investment, with a particular attention to the African context. It is a key concern within the sector, given the potential for misunderstanding of the term "impact" and the fact that several traditional investors claim to be impact investors without meeting its criteria, especially in the continent. There are differing views on the definition of impact investment and disparities in its application in the African context. This section is crucial to explicitly define the parameters of impact investing and to distinguish it from related concepts such as ESG (environmental, social, and governance), microfinance, and philanthropy before delving into the topic. A description of the impact investing ecosystem is then presented following the chain from capital owner to final beneficiaries. This subsection is essential for the comprehensive mapping process that led to the creation of the Chair's database.

## A. Impact investing characteristics

There is no unanimous definition of impact investing in the literature. Various proposals exist to define impact investing[2], but they do not all converge nor agree on the same characteristics that define these investments. However, in this report, we shall consider the concepts of **intentionality and additionality as the two pillars on which impact investment is built**. First, there must be an intention to generate a positive impact before capital is allocated. This essence of impact investing is complemented by the additionality of investment flows. These characteristics have four main implications, which will be discussed in the following subsections.

### 1. Impact investment main features: intentionality and additionality

*Intentionality principle*

Impact investing is defined in this report as a financial investment that aims to generate a sustainable net positive social, environmental and economic impact, while looking for financial sustainability, which means financial returns that can range from zero to market rates. Impact investing then combines financial objectives with a social and/or environmental focus. Brest et al. (2013) claim that impact investors actively pursue opportunities that generate social or environmental benefits and are socially motivated. All in all, impact investment is to "actively place capital in enterprises that generate social or environmental goods, services, or ancillary benefits such as creating good jobs, with expected financial returns ranging from the highly concessionary to above market". This intentionality is the core characteristic of impact investment. It assumes having the

[2] A recent review of the literature by Agarwal and Hockerts (2021) identifies 17 different definitions.

necessary knowledge about "how to address complex and deep-rooted social challenges" (Casasnovas et al., 2022).

This definition emphasizes the desire of investors to achieve a positive social impact and not to be limited to a simple financial objective, even if a "traditional" investment strategy could lead to profitable social outcomes. The distinction could be clarified by stating that **an impact investor aims to achieve ex ante defined "key impact indicators" through its investments, rather than simply noting ex post an achieved "greater good" of his investments** (see Box 1). In other words, impact investors are driven by the idea of creating impact before allocating financial resources to any project or initiatives.

***Box 1: Difference between impact investors and impactful investors in Africa***

Simply generating impact through some investment activities will not be a sufficient condition to be considered as an impact investor. Nonetheless, it does not imply that an actor is not generating any impact, whether it is positive or negative (see the example of Axian Group below). One defining trait of an impact investor is its commitment to actively pursue, assess, and communicate the outcomes of its investments in sectors and areas that receive limited attention from conventional financial markets.

For instance, the shareholders of a company employing 100 people in a poor African country may legitimately consider having a positive impact, just because its investment generates employment, provides financial stability for their 100 employees, produces goods which satisfy its customers, and finally structures a value chain positive for its suppliers. While it is accurate for them to promote their investments as generating positive effects called "incidental impacts", it is not accurate for them to label themselves as impact investors, as their primary objective was solely to achieve favorable financial returns by investing in a profitable company.

Consequently, to go further, investing in Africa, simply due to Africa's underfunded status, does not make a commercial investor an impact investor. Intentionally funding underfunded areas does not necessarily qualify investors as impact investors. To legitimately claim this status, an investor operating in Africa would have to pre-define its will to do so, identify the key policy issues to address, as well as the social, economic and environmental goals associated, choose key performance indicators allowing to measure its success and failure in accomplishing its mission, and finally be able to arbitrate between fidelity to the latter and profitability in case of dilemmas.

Impact is at the core of their strategy, whereas traditional investors seek financial returns and are aware of the impact they have generated because of their investments (Trelstad, 2016).

This is an important discussion issue for investors in Africa. The continent badly needs foreign direct investment, for several ends such as balance of payments, technology and capacity building or job creation. Does this mean that every investor in Africa should be considered an impact investor? Of course not. Most international investors operating in

Africa fortunately have positive impacts on the continent, but their only overarching goal is profit. This of course does not prevent them from trying to operate at the best ethical, social, and environmental standards possible but this does not qualify them as impact investors.

**Example 1: AXIAN Group[3]**
**An impactful but not impact investment group**

The Madagascar based Axian group provides a good example of an impactful investor. This family fast growing company has expanded its activities from Madagascar to the entire continent, and made an important effort to define its "raison d'être" as well as a strong ESG identity, all this reflected in the way it presents itself:

*"The Axian Group objective is to become the champion of a more inclusive and innovative digital, financial and energy ecosystem in Africa*". They define their identity as follows: *"today we are committed so that tomorrow everyone can be connected to one's own and to the rest of the world, have access to means secure payments and that energy becomes accessible. By growing together, we help reveal the potential of our continent*".

Axian's unique model does not precise the additionality role of their investments as they are investing in markets where strong competitors are present. It is for instance the case of telecoms, an important pilar of the group. Although Axian Group operates in many poor and fragile countries, including Madagascar, they actively seek high financial returns. Despite the clarity of its mission, the precise description of the way it wants to operate and the nature of the desired impacts, it does not put the latter at the same level as profitability. It defines the seek of high financial returns as its prior goals and they wish to be assessed on its contribution to them.


** OUR UNIQUE MODEL*
*We envision an innovative growth model focused on inclusivity, cooperation, and the sharing of expertise. AXIAN acts as a responsible partner in the economic transformation of emerging countries by engaging in a long-term approach based on the exchange of know-how, the transfer of skills, technologies and innovations, and structural investments.*

[3] https://www.axian-group.com/

*Additionality principle*

In this report, the second core principle of impact investing is **additionality.** It is defined as ***"making an investment happen that would not have happened in the absence of the impact investors' intervention"*** (Carter et al., 2021). Even if the project is financed by both impact investors and traditional investors, the presence of the former is crucial for its realization. Non-impact investors will not commit funds to the project if one or more impact investors are not willing to take the risk.

This means that impact investors must direct their funds to investments or projects that are neglected by other private investors, particularly because of an unfavorable risk-return ratio. To emphasize this principle, the funds help the investees to implement their activities in order to generate primary impacts that would not have been generated without them. The other scenario is when the funds are directed to an existing project and the funds enable it to continue its operations. In this case, the investees have already created impact in some way, but the additional resources provided by these investors aim to scale it up.

**The principle of additionality is not limited to financial additionality. The presence of impact investors is expected to increase the development content of the investment by drawing a special attention to its effects.**

In a broad sense, impact investing fits into social finance (Rexhepi, 2016), where organizations seek to generate financial returns for sustainability by solving social or environmental challenges. Impact investments are generated by private investors and governments by generating profit and creating public good for all.

## 2. Implications

The previous definition implies four characteristics that distinguish impact investments and investors from other investments and investors.

*Implication n°1: finding the right level of profitability and financial returns*

Impact investors wish to generate positive impact. They use capital to maximize total integrated value with multiple aspects of performance, of which financial return is one among others. **Impact investors (may) accept below-market returns** (Bugg - Levine and Emerson, 2011). There are two categories of impact investors: those who seek positive impact and are aware of the possibility of below-market returns, and those who seek investment characteristics that provide market or above-market returns while generating unintentionally social or environmental impact (El-Zoghbi et al., 2013).

The first category fully meets the criteria of impact investing. Furthermore, despite the potential lack of profitability in the early stages of the investment, the investees are required to have a strategic policy or a comprehensive roadmap that facilitates the transition to profitability in their operations. In addition, the investors themselves are characterized by this "tolerance for delayed profitability", which allows to use the word "patient capital" for them.

The second category might also meet the definition of impact investing, but only during the time they remain “additional”. If they address market segments that provide high or super-high financial returns, it is likely that overtime, regular commercial investors would come and compete, or complement them. At some point, the question of their additionality will then be raised. A logical consequence would be either they would become regular commercial investors or change their scope, after having in both cases declared victory – by having created a sustainable market.

A recent report by I&P for the C3 Consortium (2022) provides a good illustration and conceptualization of the structural reasons for which funding profitable start-ups and SMEs in poor and fragile countries unfortunately leads structurally to poor returns for investors. Those structural features lead impact investors to compare the economic value created by the funded company at the micro and the macro level and the financial value. The difference between the two determines the shadow level of subsidy they provide to the fund. This level can be compared to the level of subsidy in other areas of public policy. It can be a base for an open-eyed acceptance of a loss of financial profitability for a well-informed economic impact. Impact investors are aware of this situation and still decide to direct their funds to investees in such conditions. It is their responsibility to convince their own investors, lenders or donors of the rigor of their analysis.

*Implication n°2: Having an impact thesis*

Impact investors must express explicitly the dual goal of generating social good and financial returns (Burton et al., 2021). This must be articulated through an impact thesis that establishes a link between the impact investors' intentions and their goals (IFC, 2019). An **impact thesis is a narrative, which can be presented as a “theory of change” that links the funding to the outputs and outcomes of the financial vehicle or company**.

An impact thesis can also take the form of explicit mandates. For example, the Livelihoods Fund aims to support rural and agricultural communities to limit carbon emissions. Bestseller Foundation, another impact investor with investments on the African continent, has a mandate to act on climate transition issues while generating a financial return by addressing circular economy and climate tech issues. Some funds have shifted their interests over time as Acumen (see below).

In Africa, it is rare that impact mandates do not include poverty alleviation or job creation. But one can find an overall broad distinction between three sorts of impact thesis:

- Those which address global public goods in the continent, like biodiversity or climate change, be it attenuation or adaptation, or fighting against pandemics.
- Those which are focused on a specific sectoral contribution to development in the continent: education, gender, infrastructure, health, agriculture.

- Those which are targeting job creation, often associated with a focus on the poorest and most fragile countries, have a broader development contribution target such as economic growth or are targeting peace and stability. Job creation especially in the poorest countries is an impact target which is very specific to Africa, given its demographic and poverty situation and would rarely be chosen as an impact thesis in industrialized countries, for instance.

**Example 2: ACUMEN**
**An impact investor having adjusted his mandate**

ACUMEN has quite evolved over the years. Primarily, it was raising grants to invest in companies located in developing countries in order to fight against poverty. They have more recently raised also capital for that purpose, including in Africa. This is the way they express their mandate and define their identity as impact investor.


OUR VISION

Neither the markets nor aid alone can solve the problems of poverty. More than two billion people around the world lack access to basic goods and services—from clean water and electricity to an education and the freedom to participate in the economy. We're here to change that. Our vision is a world based on dignity, where every human being has the same opportunity. Rather than giving philanthropy away, we invest it in companies and change makers.

Among Acumen's latest initiatives, a new energy focused fund for Africa was created. Its presentation by Bloomberg, below, features very precisely the mandate between environmental impact and profitability of impact investing.

**Acumen Closes $70 Million Impact Fund for Clean Energy in Africa**

- Novogratz's Acumen to fund fast-growing renewable energy firms
- The fund seeks to provide cheap power and competitive returns

*Implication n°3: Directing finance towards underfunded areas*

Unlike traditional investors, impact investors recognize the importance of filling critical funding gaps. The additionality principle implies that impact investors must be complementary to traditional investors in that they **direct their resources to projects or enterprises that receive little or no funding from traditional sources** (investors, banks, etc.) (Brest et al. 2013). They may be willing to take high risks to contribute to creating new markets. This willingness to support underfunded ventures characterizes impact investors' commitment to creating transformative impact beyond immediate financial gain.

This can be linked to the sector in which they operate (social sectors), the countries where they operate (fragile countries or underfunded areas), or the type of financial product they provide (such as leasing in countries with poor financial structures, or equity in saving-deprived countries).

Zira Capital is a good example of an impact financial company directing funds to serve underfunded businesses in a poor and fragile country (see below).

**Example 3: ZIRA Capital**
**Impact investor directing funds to underfunded businesses in one of the poorest countries and a conflict zone**

Zira Capital was created in Mali in the midst of the Covid and Russo-Ukrainian wars and in a period of deep insecurity and political instability in Mali. It provides equity, mezzanine funding, technical assistance but also zero interest loans to start-ups and SMEs across the country wherever it is possible to operate. It is funded by international investors, Malian banks, insurance companies and entrepreneurs, as well as individuals from the diaspora.

*Implication n°4: Willingness and ability to measure impact*

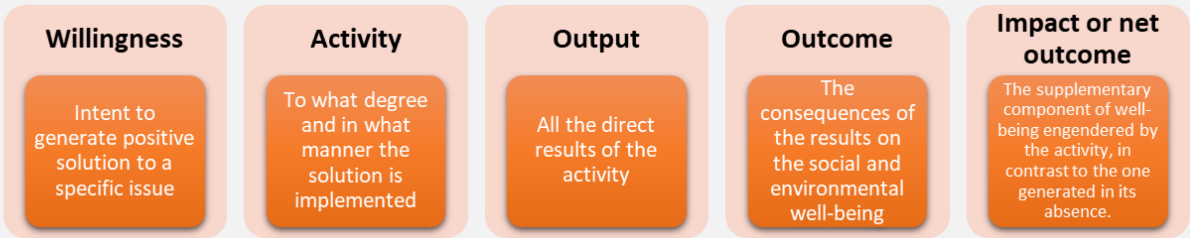
Finally, it is important to be able to measure the impact of investments, but also to manage the blended value created (combination of economic, social and environmental impacts). **Impact investors must have the means to monitor, evaluate and publish the economic, social, and environmental impacts of their investments, without neglecting the potential negative and indirect (e.g. spillover) effects.** They must seek to measure all their externalities, both positive and negative, direct and indirect (Severino, 2022). The GIIN, Global Impact Investing Network, believes that evidence-based impact measurement and management is essential, as the GSG (Global Steering Group) emphasizes the concept of scale alongside measurability (GIIN, 2020).

Brest et al. (2013) introduce three basic parameters to assess impact and what this term covers, as an indicator for impact investors as to whether or not they are producing real impact as expected. These parameters are *company impact*, which is the social value created by the investee company; *investment impact*, which is the financial contribution to the social value created by the company; and *non-monetary impact*, which is the other contributions made by investors to increase the social value of the company. However, these impacts are achieved only if they increase the quantity or quality of the enterprise's social outcomes beyond what would have occurred otherwise, known as the additionality characteristic of impact investment (IFC, 2019).

It is important to recognize that assessing impact is a complicated challenge (Box 2), requiring not only the ability to quantify impact, but also the necessary tools to do so. Moreover, measuring impact is significantly different from tracking activities, and impact investors should allocate resources for this purpose, most of which are accounted for as part of their overhead costs.

**Box 2: Impact measurement and its challenges**

Impact measurement involves a comparative assessment between current performance, enabled by the products or services provided by the business or investment project, and an existing or target baseline ("counterfactual"?). This impact assessment should be systematically aligned with the successive stages of the impact chain presented below, but all the investors are not familiar with. As this domain is at the crossroad of business and charity, it combines investments model and notions of value. This measurement can be done with several tools to determine qualitative and quantitative investment's effects. Key Performance Indicators (KPIs) and Environmental, Social and Governance (ESG) criteria can evaluate the intent and the core of the activity behind these investments. The output, outcome or net outcome can be estimated by using bibliographic research for comparing impacts of two practices such as carbon dioxide emissions using nuclear or solar energy for instance; survey addressed to those who stand to benefit and to a group control in order to determine the additionality of the investment; interviews to collect witness statements. Survey helps to measure if the impacts generated by the investee or the project have been multiplied since the injection of capital from the impact investors. The most used tool within impact investing community is all-time or absolute outcome acquired from a regular follow-up of the activity.




Although there are several methods of measuring impact used by investors, no unanimous method is mobilized and there is a huge lack of uniform and comparable metrics, resources and mostly data. The GIIN annual survey shows great diversity in the methods used for these measurements and mentions a large panel of online IMM tools open for investors helping them to assess impacts by highlighting KPIs (IRIS+, SASB, GRI, GIIS, HIPSO, JII, Aeris Cloud, GABV' method). Furthermore, having no counterfactual and mainly presenting only the direct positive gross impacts without specifying the net outcome, indirect and negative impacts generated by the investment is questionable. Indeed, this process presents many hurdles especially because impacts are multidimensional and they are not always quantitative. Moreover, measuring impact implies having a time frame that is long enough to assess changes. As a result, there is a paucity of knowledge around the impact of the field itself (Casasnovas et al., 2022).

**Example 4: NOVARE**
**How the defined criteria are referenced by impact investors**

NOVARE®

*We generate positive returns and create long term value for our investors while positively impacting the communities in which we invest and operate*

**Intentionality and additionality principles**

*Our impact investments solutions aim to unlock economic growth and employment opportunities in South Africa, and support the establishment of green, prosperous, harmonious and resilient communities.*
*Any investment made by the fund will address one or more of the UN's 17 Sustainable Development Goals that are aimed at ending poverty, protecting the planet, and ensuring prosperity for all, with the objective of achieving a more sustainable planet by 2030 and making the world a better place.*

**Profitability and financial return**

*The Novare South Africa Impact Fund will not only target financial returns but will also seek to attain measurable social impact. The Fund aligns with the National Development Plan domestically and the UN Sustainable Development Goals.*

**Having an impact thesis**

*Making an impact, delivering returns.*

**Channeling funds into areas or communities that lack financial support or are disadvantaged**

*Novare endeavors to contribute to the development of under-privileged communities.*

**Willingness and ability to measure impact**

*Our impact investment approach entails the following:*

- *Formal adoption of an impact policy*
- *Establishment of impact priorities and commitments*
- *Consideration of these priorities and commitments in the selection and management of investments*
- *Integration of ESG in the investment process*
- *The formal allocation of impact-related roles and responsibilities to relevant team members*
- *The measurement and disclosure of impact performance.*

## 3. Impact investment and its close concepts

As already mentioned, impact investors sit at the intersection of pure philanthropy and sustainable investments such as ESG. They seek financial returns, unlike philanthropy and charity, which focus solely on impact without financial gain. In contrast, socially responsible investors take a neutral stance, emphasizing that philanthropy is purely about creating impact. Table 1 outlines the unique aspects of impact investing. The African investment world is a good example of the global approach, but also has specificities.

*Table 1: Characteristics of Impact Investing in contrast to similar concepts*

| | DONATING | | | IMPACT INVESTING | | INVESTING | | |
|---|---|---|---|---|---|---|---|---|
| Donors/ Investors | Charitable donor | Strategic philanthropy donor | Venture philanthropy donor | Direct impact investor | Indirect impact investor | Sustainable investor | Socially responsible investor | Financial investor |
| Screening | Basic Compliance | High Impact Organization | Organizations with potential to scale | Social impact first, then seek a positive financial result | Financial first, then seeking positive social impact | Financial + positive screen for ESG | Financial + negative screen | Financial only (besides bank regulatory compliance) |
| Expected Financial Return | -100% | Negative | Negative | Flat to market | Close to market | (Almost) market | (Almost) market | Market (risk adjusted) |
| Expected Impact Intent | Full | Full with leverage | Full with leverage | Significant | Some | Modest | Neutral | None |
| Donors/ Investors Seeking | Organization with a mission they believe in | Well-run organizations in donor's theory of change | High-impact and scalable | High social impact with below market rate financial return | High rate return, with some social/ environmental impact | Market-rate returns that are socially targeted | Maximize profit without provoking conscience | Maximize profit with no regard to social impact |

Source: Adapted from *Markets for Good* by Brian Walsh, SOW Asia

In the following, we discuss some of the differences between impact investing and close concepts.

*Environmental, Social and Governance (ESG) and impact investing*

Although ESG and impact investing share a common background, ESG serves as a framework for stakeholders to assess an organization's sustainability risk management, relying primarily on historical data, although it can inform or be mobilized for future decisions. It provides information on the investee's impact on the environment, its impact on social issues arising from its activities or the areas in which it operates, and its governance. In addition, ESG can help investors mitigate risk by allowing them to screen out or avoid investing in companies that do not meet established standards. In other words, **ESG is considered as a criterion in the decision-making process**. ESG score helps identifying companies or projects that demonstrate responsible business practices. Effectively, regular commercial investors can also look forward to improving their ethical, environmental, social or governance practices, but the ESG objectives remain at the decision-making level.

Differentiating impact investing and ESG is particularly important in the African context for international investors as well as for domestic investors, given the overall environment. Africa is a higher risk environment especially for foreign investors, than most OECD countries. This is a reason for which many are demanding high financial rates of returns and shorter return maturities, which weigh on the development path of the continent. This risk is of course related to macroeconomy, exchange rates, security, and stability and of course compliance. But the loose entrepreneurial tissue, the lack of qualified human resources, as well as poverty and environment play an important role in increased costs and instability of the operational environment. Consequently, many companies must integrate their value chain more than they would do in OECD markets, and invest in diverse social dimensions (health care, decent salaries, insurance…). This ESG dedication is good on all ethical grounds but often also mandatory for business. Nevertheless, the importance of this social focus, once again, does not make them impact investors even if impact investors also look at the ESG performance of their potential investees.

The reason is that impact investing is a whole strategy dictating the investment from start to finish. As aforementioned, impact investors primarily define the impacts they want to generate upstream the investment activities. They do not stop at the decision-making stage but follow-up during the whole life of their investments up to exit, which also has to be coherent with their mandate.

**Box 3: Difference between seeking impact and taking into account ESG criteria**

ESG criteria primarily focus on assessing a company's operations and policies in relation to environmental impact, social responsibility, and governance practices. This typically involves monitoring and reporting on the company's ***internal*** practices and performance in these areas.

When it comes to "seeking impact", the key difference is in the action and intent behind the assessments but also in the scope of the area that is evaluated. Seeking impact goes beyond just monitoring ESG criteria; it involves actively making decisions and taking steps that lead to positive outcomes: ***internal and external***. It is about implementing changes and initiatives that not only comply with ESG standards but also aim to ***make a substantial positive impact on society and the environment.***

Impact investing is also different from philanthropy. ***Philanthropy* does not imply the pursuit of financial returns**. It involves a conscious and generous active effort and contribution of funds and assets, such as real estate or securities, to support good causes, though it can also serve as a source of income for private nonprofit organizations (NGOs) (Sulek, 2010).

**Example 5: SOROS, JACOBS and MASTERCARD**
**Three foundations operating in the impact investment space**

**Soros and Jacobs foundations have taken the lead in imagining an innovating scheme that will also help the education sector in Africa.**

These foundations participated in the creation of the International Finance Facility for Education (IFFEd)[4] which operates with a mixture of direct grants and guarantees. They provide a new form of portfolio guarantee to Multilateral Development Banks (MDBs) and mobilize grant in order to create a dedicated pool of concessional capital for education which is more affordable than existing MDBs or commercial banks. They do not directly fund investees in the education sector but help financing this sector through an additional capital injection in MDBs portfolio to increase their lending to LMICs. They do impact positively this sector by supporting public education programs and these programs should be financially sustainable and can eventually become self-sufficient without compromising the developmental goal. However, the primary goal is not to seek financial returns.

**The MasterCard Foundation supports the emergence of gender-lens African investment funds through the Africa Growth Fund[5]**

The Mastercard Foundation has created the Mastercard Africa Growth Fund, dedicated to supporting the emergence of mostly female led young African investment teams in a selection of countries, with gender lens impact investment thesis. They provide a grant to the management consortium, mainly composed of MEDA as the General Partner, I&P as the investment manager and ESP as the technical assistance provider. The consortium invests in and supports through equity and debt those young teams, accepting high level of risks but seeking financial sustainability for the funds they work with. The way they phrase their mission and vision is quite illustrative of how they see their mission as an impact investor.

This difference should be taken with caution especially in Africa, where private philanthropy is quite active, particularly in the social sectors. Foundations, NGOs, and private investors pursue the same public goods: improving living standards, life conditions, addressing pressing policy issues. However, philanthropists provide support to structures which have no revenues or business models which are far from being able to break even. Instead, impact

[4] https://iff-education.org/faq/#supported-projects
[5] https://mastercardfdn.org/all/africa-growth-fund/

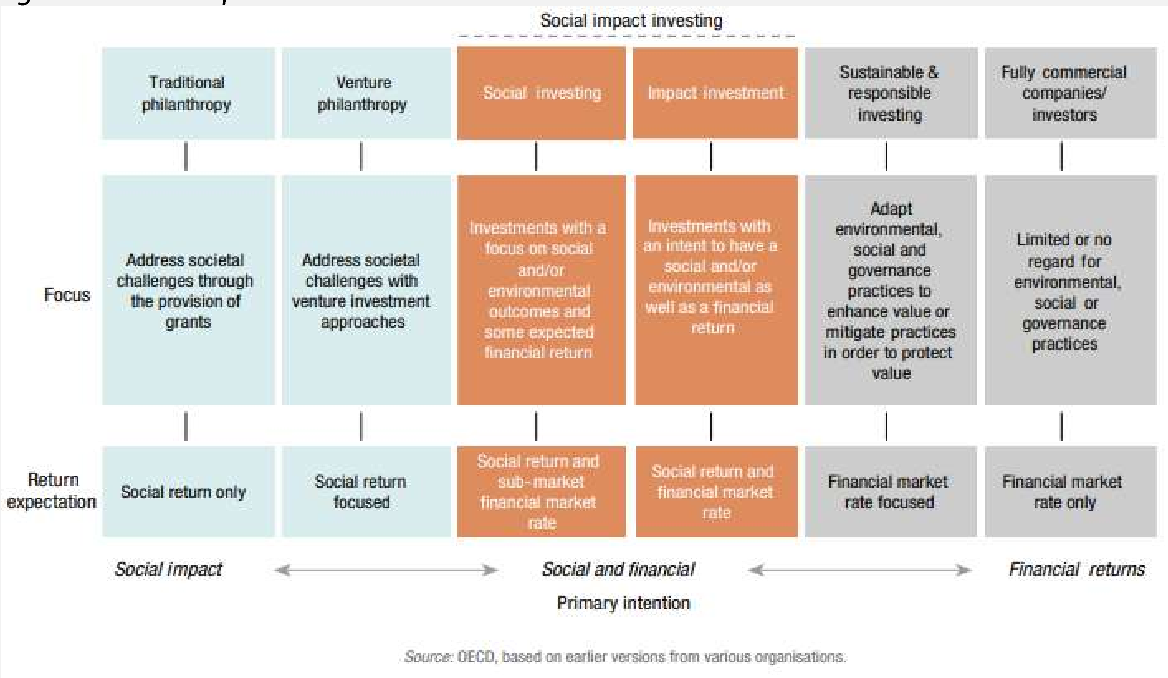
investors support activities which have a precise contribution to public issues and a sustainable economic model.

The African context nevertheless offers instances where those distinctions become less clear. Some foundations, like Mastercard Foundation, Gates Foundation, Soros Foundation, or Jacobs Foundation, invest in impact investment structures and then support impact investors. They can also provide grants to impact investors, so that the latter can mobilize them to invest in high-risk activities, such as emerging African teams. They can be capital allocators, but also tend to become in certain cases close to an impact investor.

**Box 4: Impact investing: Bridging philanthropy and profit-driven investment**

The figure below draws a resume of each practice close to impact investment when it comes to social investing. It sets the differences between them by highlighting their intents and the return they expect from.

*Figure: What is impact investment and what is not?*




Impact investment practices diverge from sustainable and responsible investing (SRI), and program-related investments (PRI), often referred to as “social investing”. SRI primarily centers on the exclusion of company practices deemed morally reprehensible or unethical from investment portfolios, thereby safeguarding the investors' ethical commitments (Casasnovas et al., 2022). Conversely, PRI are employed by foundations to support their beneficiaries in achieving philanthropic objectives with the purpose of demonstrating their financial stability to traditional – classic – investors. The convergence of these two practices culminated in the emergence of “impact investing”, which gained prominence around the early 2000s (Trelstad, 2016).

*Socially responsible investment and impact investing*

**Finally, *socially responsible investing* (SRI) seeks to avoid negative externalities but does not necessarily prioritize or require positive externalities.** SRI is a category of investments that can be related to impact investing, as presented by Camilleri (2017) in his article. SRI involves the integration of social and environmental objectives into investment decisions BUT does not fully aim to create measurable social and environmental impacts. It aims to incorporate at least some responsible objectives towards society and does not necessarily have the will and ability to measure and improve the impact of its investments over time. In other words, its purpose is to support corporate behaviors and practices that promote social responsibility and commendable initiatives.

SRI are mostly based on the Principles for Responsible Investment (PRI), an initiative of the UN and notably the UN Environment Program – Finance initiative (UNEP – FI). The way PRIs are formulated provides a clear vision of the difference between impact investing and this initiative, addressing the way the entire financial market should behave.

*Microfinance and impact investing*

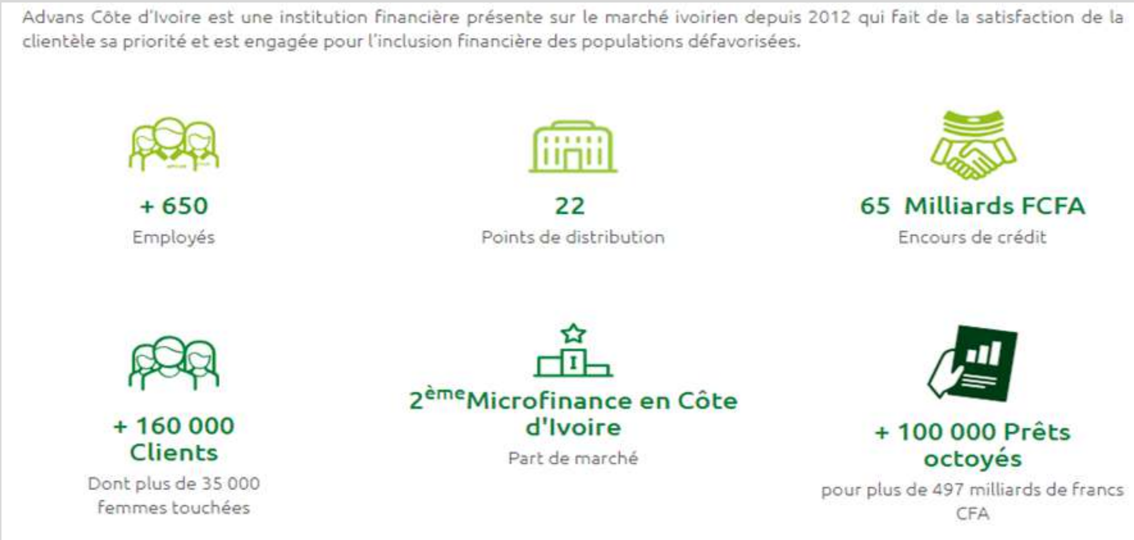
Microfinance and impact investing share similarities in addressing development finance problems. Part of microfinance can be considered as belonging to the impact investing community. Part of its activities has purely commercial goals, seeks to maximize financial returns and as such could not be considered as impact investment. But the "original microfinance" movement, exemplified by Grameen Credit Agricole Foundation, and inspired originally by the Mohamed Yunus' Grameen Bank, has superseding social goals, accepts limitations in returns and targets the very poor to improve their lives.

Microfinance refers to "a range of financial services, including loans, savings, and insurance, available to poor entrepreneurs and small business owners who lack collateral and would otherwise not qualify for a standard bank loan" (Jafar et al., 2016). The combination of the financial product (loans) and the size of the enterprises which are supported (larger for equity impact investors) explains the differences between the microfinance and equity impact investors, which share nevertheless the same goal (impact), and both look for financial sustainability. **Microfinance targets very small and often informal enterprises, while impact investors finance formal and growth-oriented enterprises**. Below is an example of a microfinance institution dedicated to support entrepreneurs, the Advans Côte d'Ivoire.

Differences and similarities are particularly important to highlight and review in the case of Africa, where microfinance plays an important role in the poverty alleviation agenda and where equity impact investors and microfinance institutions maintain close links. For instance, microfinance institutions may be clients of impact investors, illustrating that they operate at varying levels within the same industry. The Africa Guarantee Fund, for example, provides guarantee to different financial structures such as banks and microfinance institutions in order to increase their lending to different vulnerable sectors.

**Example 6: ADVANS (CÔTE D'IVOIRE)[6]**
**A microfinance institution dedicated to supporting entrepreneurs**

***Our vision***
To be a benchmark financial institution which promotes economic and social development in Ivory Coast by strengthening the private sector.
***Our mission***
Providing financial services adapted to the needs of SMEs, entrepreneurs, traders, artisans and their families in a sustainable and responsible manner.




In this report, despite all those connections, we have chosen not to include direct coverage of microfinance due to the specificity of the sector. Nevertheless, impact investors who invest in microfinance institutions are included in our survey. For instance, Invest in vision[7], a German impact investor, has established two programs, a microfinance fund, and a sustainable SME Debt Fund.

[6] https://www.advanscotedivoire.com/
[7] The website is available at this link: https://www.investinvisions.com/en/ (consulted in May 2024).

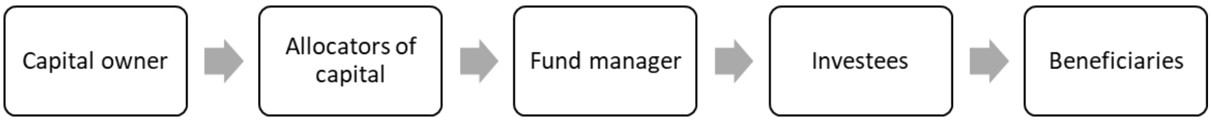
## B. Impact investment ecosystem

### 1. Description of the impact investment ecosystem

There are several key roles in the dynamic impact investing ecosystem. It is important to identify them and therefore who are those we shall call “impact investors” and survey in this report.

At the origin of this value chain of capital, the “capital owner” provides the fuel for the entire system together with “Capital allocators”. The role of the latter is to identify and choose fund managers. Fund managers are the ones who, at their turn, will invest in companies, initiatives or even projects (investees), called also as “social service providers”, that serve final beneficiaries (households, businesses, etc., who may be clients, borrowers…).

*Figure 1: Value chain of capital*




**Source:** FERDI’s production based on Trelstad (2016)
**Note**: Trelstad introduced the value chain of capital, also known as spectrum of capital. It shows how the capital is moving in this spectrum while identifying the type of actors taking part of it.

In this capital spectrum, the owners of capital (capital owners and allocators) are not the actors who directly invest. Although they share the desire to achieve financial, social, and environmental returns over time, expect significant outcomes, and uphold the values of the impact investment industry to which they are affiliated, they do not play a role in the selection of investees. Instead, **investment decision and monitoring are the main activity of the fund managers. Therefore, FERDI's Impact Investing Chair will consider in this report only the fund managers as impact investors.**

## Example 7: INCOFIN
## Illustration of the impact investment ecosystem

Incofin is a large global impact investor with many activities in Africa. They have capital allocators such as Danone, BNP, USAID, Norfund, IFU, etc.… Each of those capital allocators is funded by capital owners (depositors in the case of banks, shareholders for the listed companies, governments in the case of DFIs etc.…). Incofin is the impact investor and manages several funds.

*"We invest in impact. As a dedicated team, our mission centers on driving meaningful impact in emerging economies, all while aiming for a sustainable and healthy return. We believe in what we do. We are a team owned company, investing in our own funds".*

| **General information** | **Active funds managed** |
|---|---|
| Inception date: 2001<br>Headquarter: Belgium<br>Asset: $ 1 400 000 000<br>Category size: Mega | Incofin India Progress Fund<br>Water Access Acceleration Fund<br>Fairtrade Access Fund<br>Agri-Finance Liquidity Fund<br>Incofin CVSO micro-finance<br>Rural Impulse Fund II<br>AgRIF |

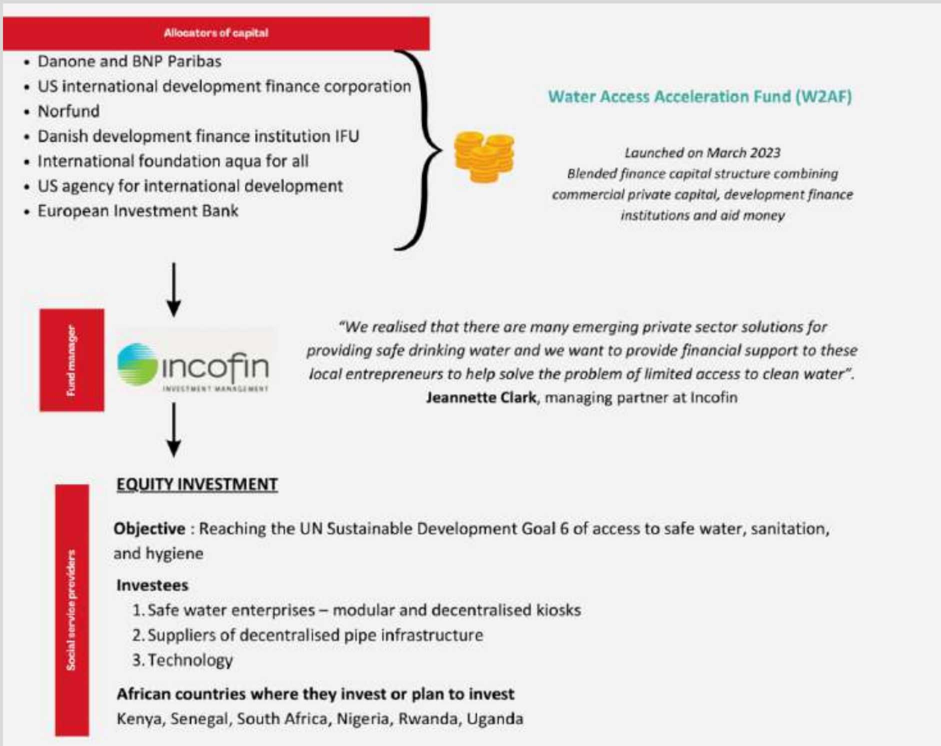
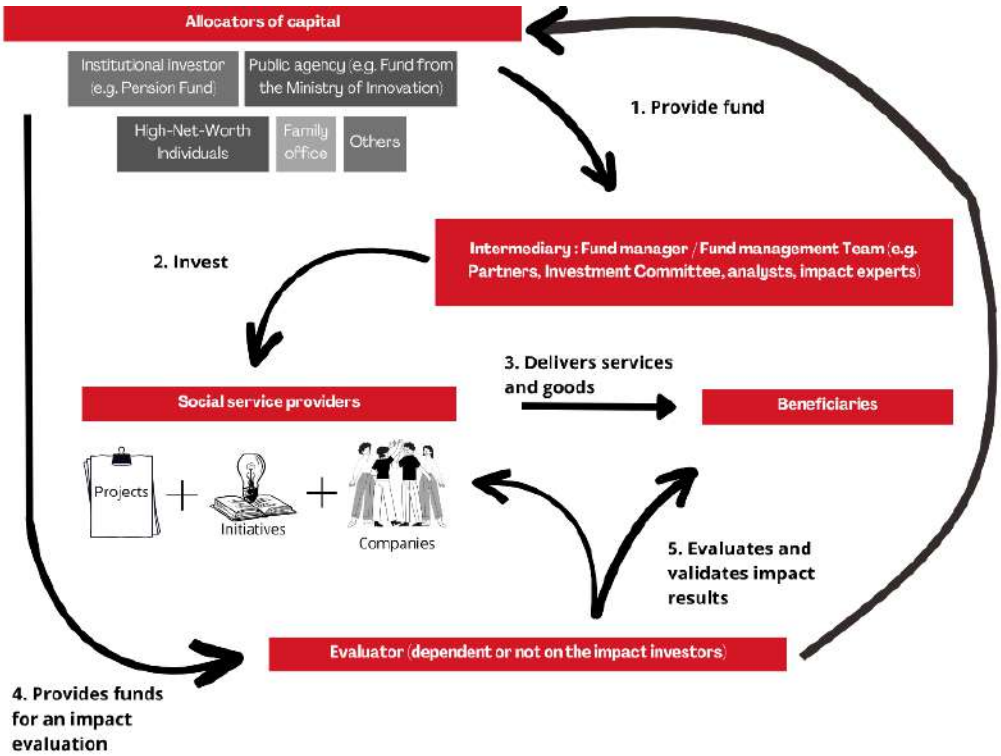


*Figure 2: Impact investment ecosystem*




**Source:** FERDI's production based on Casasnovas' paper (2022)
**Note**: Impact investors invest in a fund manager team who is in charge of managing their capitals. After choosing a social service provider (projects, initiatives or companies), they allocate working capital to them. The investment aims to deliver additional services and goods for the beneficiaries which are subject to an impact evaluation after a defined period.

The investees necessitate strict alignment with investors' expectations and objectives. Making the investment decisions necessitates a comprehensive due diligence procedure designed to assess the integrity, viability, and potential risks associated with the specific investment, as well as the expected extra financial outputs and outcomes.

What should be noted is that the system is mostly demand-led: investees approach investors to seek funding for their projects. The fund manager most of the time receives requests for financing or proceeds to a call for projects or proposals[8]. In some cases, the fund manager may apply for capital to allocators of capital such as a fund-of-funds[9], to build its asset portfolio allowing them to invest in Social Service Providers (SSPs) afterwards.

Once the investees, also called SSPs, have been selected, and the investment internally approved, the fund manager proceeds. Along the life of the investment, it will in most cases monitor closely both its financial and extra financial performance. This will be done through

[8] An example of call for proposals by IDB's Lab equity financing: https://www.iadb.org/en/home/calls-proposals/venture-capital-funds
[9] Example of Africa Growth Fund managed by the MasterCard Foundation https://africagrowthfund.org/

monitoring reports and direct contacts, including the participation into the governance of the investee corporation. KPIs will be in most cases established and monitored.

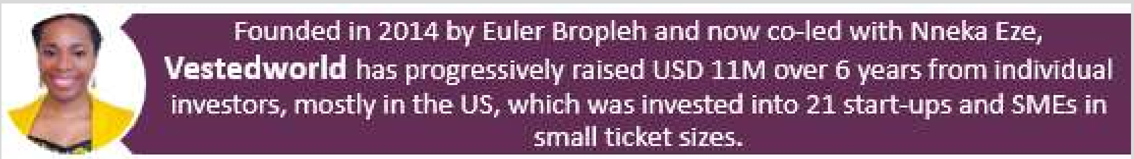
This capital value chain will in most cases not include the capital allocators. Generally, those will follow at an aggregate level the performance of the impact fund they have invested in. In a limited number of cases, capital allocators may directly manage a unit responsible for funding SSPs, positioning them as impact investors.

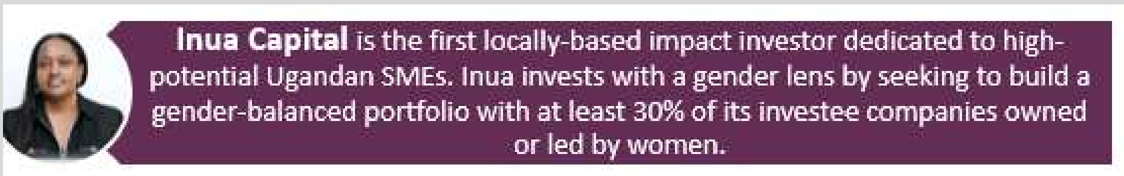
Some funds of funds are considered as impact investors in this report if aside their providing funds role as allocators of capital they have direct investment activities. Those who invest directly in different companies and projects, despite their quality of funds-of-funds are considered as part of our sample.

An example can be provided by the Mastercard Foundation, which we have already introduced. The foundation itself will be considered in this survey as a capital allocator, while the Mastercard company, which funds the foundation, will be considered as a capital owner. The Mastercard foundation has created the impact fund of funds which we have already spoken about, called the “Africa Growth Fund”. We shall consider only the funds it invests in as impact funds.

**Example 8: AFRICA GROWTH FUND**
**The complex case of The MasterCard Foundation Africa Growth Fund**

This entity is defined as a Fund-of-funds and does not directly invest in SMEs in Africa. Based on our definition in this report, the MasterCard Foundation Africa Growth Fund, though really a fund, will not be considered as an impact investor, but a capital allocator. However, the African investment Vehicles (IVs) it invests in and which meet the previous definition of impact investment will be considered as impact investors. It is the case for Vested World, Inua Capital or Aruwa Capital Management, some of their first investments to date.

## 2. Investors and funds category

*a. Categorization based on the asset classes mobilized.*

Impact investors[10], as defined earlier, use different financial instruments. Indeed, there are several types of ways to invest and therefore several types of investors. They can be defined by how they allocate their capital to the investees and categorized as follows:

*Table 2: investors and funds category*

| Categories | Descriptions |
|---|---|
| Creditor | Structure whose activity is solely debt financing, without being a microfinance institution |
| Private equity – venture capital fund | Private investment funds that primarily engage in acquiring ownership stakes in companies, which could be in the form of private equity or venture capital. The venture capital involves firms / projects in the early stage of their life cycle in situations where debt is not a suitable financing instrument (Norton, 1996) |
| Mezzanine fund | A flexible financing tool that offers a balance between debt and equity, often used to finance business growth |
| Guarantee fund | Structure offering incentives to provide financial support to lenders by guaranteeing a portion of their loans or investments |
| Multi-financing private funds | Private investment funds in form of private equity, venture capital or debt financing and can use mezzanine or grant |
| Microfinance Investment Vehicles (MIVs) | Investment funds specialized in financing microfinance institutions and providing micro loans. |

These different assets classes give an idea of how the projects or firms where impact investors will invest in are chosen. They influence with this manner the landscape of impact investors in a specific area.

[10] From the capital spectrum, the owners of capital are not the actors who invest in a traditional way, they only allocate their capital and expect a financial, social and environment return over time. Instead, the investment is the main activity of the fund managers. Thusly, the Impact investing Chair considers the fund managers as the impact investors.

**Box 5: Microfinance institution vs. Microfinance investment vehicles**

As already mentioned, even if microfinance and impact investing share some similarities, microfinance has a different approach and does not meet necessarily impact investing criteria. Nevertheless, in the FERDI's database, some investors are qualified as "microfinance investment vehicles" in that they finance microfinance institutions. The difference is that the database does not list microfinance institutions as investors but considers investors financing this sector while meeting each impact investing criteria: the search of financial and socio-environmental returns, the willingness and ability to measure and communicate these impacts and a standalone status.

**Box 6: Generating impact through different financial flows**

Impact investment funds mainly serve as complementary flows to those financing developments and compensate for their volatility (ODA and FDI). Despite its slow rise in Africa, its weight is significant in the global financial landscape focusing on impact generation and the emerging characteristics of its market contribute to this purpose. In addition, as impact investments are considered as private investments, it should be noted that they could have a larger direct effect on growth than public investments do (Khan et al. 1990). Moreover, a simple financial profitability is no longer enough, impact investment asserts itself as a relevant and necessary alternative, especially for a continent with multiple needs like Africa. The desire to generate impacts on a larger scale is also a means to achieve the SDGs and the Agenda 2063's objectives of the African Union which most African countries are struggling to meet (AUC et al., 2023).

In this manner, it necessitates greater impact transparency requirements by shifting its focus from intention to actual measurement of impact results. It will help this sector to build its own legitimacy. The availability of data will help stakeholders to coordinate their investments by addressing different types of issues / SDGs but also by reaching areas and sectors underfunded, particularly in energy, water, and transport infrastructure (UNCTAD, 2023). The awareness of the real impacts generated by their capitals will enable developing this sector. Despite the growing interest around this theme and the growth rate of assets managed for this purpose, the impact transparency is the key to improve its dynamism.

*Table 3: Examples of funds by type of instruments*

| Categories | Descriptions |
|---|---|
| Creditor | GroFin Africa Fund<br>ICF Debt Pool<br>Inoks Capital<br>Liberia Enterprise Development Fund<br>Medical Credit Fund<br>MicroVest Capital Management<br>Nesa Capital |
| Private equity – venture capital fund | Green Dream Company<br>Greenhouse Capital<br>Growth Capital Fund<br>Hacked Capital<br>Health in Africa Fund<br>Ignite Fund<br>Investisseurs et Partenaires Afrique Entrepreneurs |
| Mezzanine fund | Cygnum Capital |
| Guarantee fund | Aceli Africa<br>AGF<br>Omidyar Network<br>Shared Interest |
| Multi-financing private funds | BlueOrchard Finance<br>BluePeak Private Capital<br>Broad Cove Capital<br>Business Partners International (Small Business Development Corporation Ltd)<br>BWiz Capital<br>Capital Canada Investment Fund for Africa (CIFA) |
| Microfinance Investment Vehicles (MIVs) | ResponsAbility<br>Symbiotics<br>Triodos Investment Management<br>Triple Jump<br>WaterEquity |

*b. Diversity of operating methods*

*(1) Eligibility criteria*

Impact investors operate in a variety of ways, despite common characteristics. Investors differ in the criteria they use to select investees in terms of target or return-impact balance.

Investors differ in their objectives. While some have a general mandate, others target specific areas, types of companies, or sectors. For example, the Livelihoods Fund, an impact investor based in Paris, France, operates in several continents, including Africa, but funds NGOs. Other investors are dedicated to a specific geography or industry. For example, Gaia

Impact, also based in Paris funds companies that promote energy transition in Africa and Asia.

In addition, the nature of the capital providers can influence the strategy of impact investors. Some, such as the Acumen Fund or the Bestseller Foundation, are partially or fully funded by donors, or philanthropic foundations and are less concerned with financial returns even if they seek financial sustainability.

*(2) Pre-investment procedure*

The investment process often begins with due diligence on the activities and operations of the investee. It identifies the investee's performance and defines the key performance indicators that impact investors will monitor during the investment period. This process makes it possible to track the impact created prior to the investment and facilitates the measurement of impact on a regular basis throughout the effectiveness of the investment. The Bestseller Foundation, an impact investor based in Denmark, uses this process, and produces regular reports on the impacts they have created. However, other impact investors use a discussion-based process to approach investees' activities or before implementing new projects with local entities.

*(3) Use of different asset classes*

Impact investors' risk aversion is limited since they are counting on scalable companies that may not already create impact at the investing stage enabling them to use patient capital. In fact, they provide different range of assets classes that also characterize their business model[11]. The use of repayable debt or equity changes the approach of investors in carrying out their mission. The balance between providing debt and measuring its risk is not negligible. The investors financial performance depends on this balance, and they adjust their operation regularly. The African Guarantee Fund is providing guarantee instruments and promote the credit requests' acceptance within banking institutions. In that case, their balance sheet is related to the banks' customers solvability. Nevertheless, when the impact investors are choosing equity, the main challenge resigns in the sale of their share in the companies implying a close consideration of the market characteristics.

*(4) Aggregating or disaggregating*

As already noted in the case of Incofin, some impact investors run several funds (in different countries and continents) and/or address different impact goals. A good example is provided by I&P, an impact group running a large range of impact activities and funds in Africa, mostly in its poor and fragile countries.

*(5) Intermediate stage and post-investment*

Despite these differences in impact investors' business models, the impacts they look for are quite similar, regardless of the mandate. They often measure the number of jobs created, the number of lives impacted, and the amount of CO2 emissions avoided. These Key Performance Indices (KPIs) are not always reliable because the methodology to track their

[11] Johnson et al. (2008): Business models "consist of four interlocking elements, that, taken together, create and deliver value" (p. 52). These are: customer value proposition, profit formula, key resources, and key processes.

evolution is sometimes non-existent. Their management of impact measurement does not reflect impact measurement in the economic sense, where a counterfactual is needed. In addition, the Internal Rate of Return is not necessarily disclosed and remains confidential in most cases.

***Example 9: I&P***

**Diversity of instruments in impact investing**

I&P is registered as a B Corporation, and built its mandate with two main investment pillars: **a) direct investment** in African SMEs, **b) indirect investment** through funds-of-funds supporting emerging fund managers, complimented by an **c) ecosystem activity**, designed to multiply the group's impact via advocacy, learning products and trainings. Finally, **d) cross-company functions** ensure the group's ability to deploy quickly and efficiently any initiative.

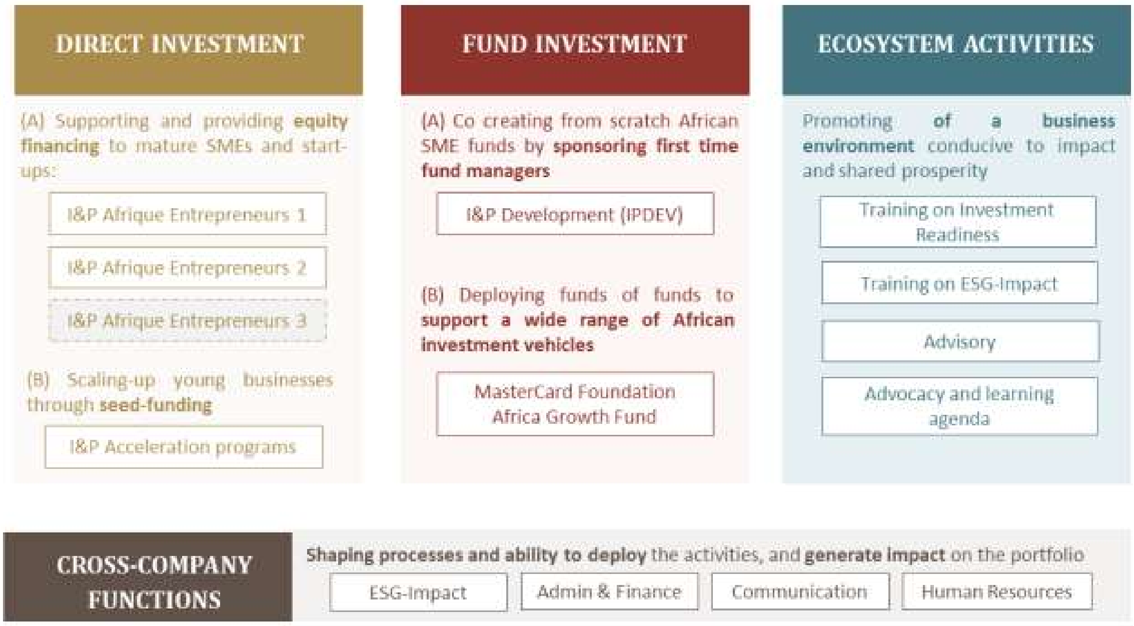



*Figure 2 I&P's lines of business*

The range of operations conducted by I&P, and to a greater extent by larger impact investing firms such as Incofin, which operates across multiple continents, presents a challenge in providing detailed responses to the questions posed in this report on an aggregate basis. Despite I&P having a comprehensive impact strategy and producing impact reports for individual activities as well as for the firm, the variability in activities hinders the ability to offer precise answers at a consolidated level.

Consequently, in this survey, we shall identify impact investors both at their global level and at the level of each of the funds they run if these funds meet the impact investors criteria explained in the following section.

## 3. Social services provider - investees

Some authors have established the landscape of the impact investing industry by highlighting the actors that make up its ecosystem. Othmar et al. (2018) combine the findings of Brandstetter and Lehner (2014) and Harji and Jackson (2012) and consider a variety of types of investments. However, by relying on the definition of impact investment maintained by the Chair of FERDI and the mapping created by the Chair, 6 types of investees are identified. The spectrum consists of:

- Standard enterprises
- Social enterprises
- For-profits with a social mission
- Micro entrepreneurs/institutions (including microfinance institutions)
- Non-governmental organizations
- Community development finance institutions

These actors "pursue a social or environmental mission through their economic activity following hybrid business models that combine social, environmental and economic elements and include people, planet and profit in their rationale" (Othmar et al., 2018).

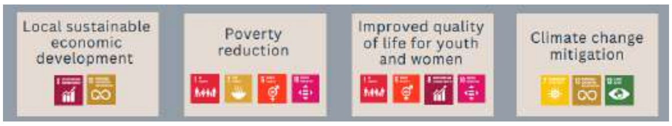
## 4. Unraveling the particularities of impact investing in Africa

As highlighted in the next section, a key specificity of impact investment is the diversity of actors' nationality across the capital spectrum. Unlike in developed countries, many capital owners are not from the African continent, but the SSPs and beneficiaries are. This diversity raises questions about the complementarity of the objectives of these capital owners and the area or sectors of interest for their investments. Africa's development challenges are diverse, and these challenges cut across many sectors. Some sectors may be underfunded or overfunded, and their aggregation may not meet the real needs of the African market.

Moreover, if impact investment funds are generally directed towards social actors and micro-institutions in developed countries, they are also mobilized to finance mainstream enterprises in Africa due to the huge lack of funds. In this way, traditional enterprises can benefit from impact investment funds because the impact they generate will benefit the beneficiaries of their services, but also the areas where they are located.

Furthermore, when it comes to the African continent in the field of impact investment, the objectives behind the generation of impact are often based on the ability to achieve the SDGs, which may not be the case in other sectors. Thus, the sectors in which investors allocate their capital may vary, but the economic activities of social service providers must be related to one or most of the 17 SDGs.

*Table 4: examples of SDGs addressed by some impact investors in our database*

<table>
<tr><th>IMPACT INVESTORS</th><th>AREA OF INVESTMENT</th><th>HEAD-QUARTER</th><th>SDG ADDRESSED</th></tr>
<tr><td>New Forests</td><td>East Africa and Austral Africa</td><td>Australia</td><td>
</td></tr>
<tr><td>Zoscale Partners</td><td>East Africa</td><td>Ethiopia</td><td>
</td></tr>
<tr><td>Cordaid Investments</td><td>West Africa, Austral Africa, Southern Africa, East Africa</td><td>Netherlands</td><td>
</td></tr>
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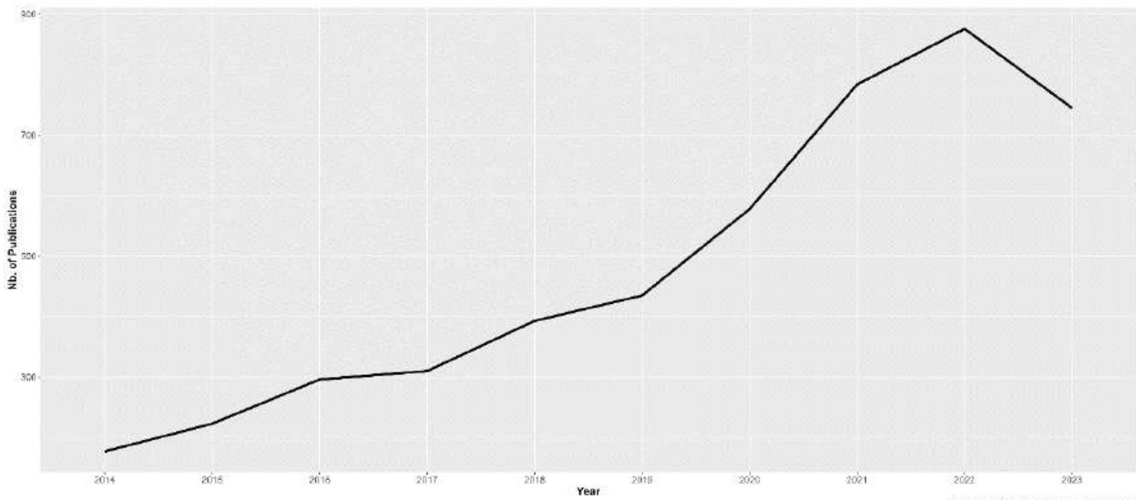
## II. Impact investing in Africa

Impact investment has attracted the attention of many stakeholders since the practice emerged in the early 2000s. As shown in Figure 3 below, between 2021 and 2023, there will be more than 700 academic publications per year that deal with the impact investing sector and mention the term either in the title or in the abstract. This figure reflects the academic effort to provide a better understanding of this and related sectors as they continue to grow (Agarwal and Hockerts, 2021).

*Figure 3: publications about impact investing.*




Source: https://app.dimensions.ai;
Criteria: 'impact investing' in title and abstract;
Fields of Research (ANZSRC 2020): 35 Commerce, Management, Tourism and Services or 3507 Strategy, Management and Organisational Behaviour or 38 Economics or 3801 Applied Economics or 44 Human Society

Despite the growing interest in impact investing globally and its growing role in Africa, there is a lack of knowledge about the industry on the continent. Evidence is available for a limited number of countries, such as Nigeria and Ghana (Impact Investor Foundation, 2019) or Côte d'Ivoire and Senegal (FAIR, 2021). However, **a comprehensive overview of impact investing in Africa is lacking. The main purpose of this report is to address this gap** through the work initiated by the Impact Investing Chair, and to provide an overview of impact investing in Africa.

In this section, we use the new database collected by the FERDI Impact Investing Chair to present key facts about impact investing in Africa, coupled with interviews with fund managers. The analysis is complemented by the extraction of data from other sources (such as GIIN). We first present the methodology used to map impact investors in Africa. We then describe stylized facts about impact investing in Africa. Finally, we discuss the contribution and challenges faced by impact investors on the continent.

## A. Methodology

The role of the impact investment sector is not negligible in terms of the opportunities it creates and the challenges it faces. However, its importance and its ecosystem are still largely unknown. To this end, **FERDI's Impact Investing Chair has compiled a comprehensive database of impact investors in Africa** for more in-depth analysis. However, obtaining the most representative picture of the impact investment sector in the African market is a major challenge due to the difficulty of obtaining reliable and up-to-date data. We therefore follow a rigorous methodology as outlined below. Details are provided in Appendix A.

*List of investors*

We identify impact investors operating in Africa by **using the following 5 criteria**:

(1) Seek of financial return.
(2) Ex-ante seek of extra financial returns.
(3) Will to measure and publish the created impacts.
(4) Existence of a dedicated team, different from the asset managers' team (standalone entity).
(5) Effective activity in Africa: a percentage of their portfolio must be based in the African continent or at least having impact on the African continent through their investees' activities.

We have combined different sources and listings to select investors meeting our criteria. These sources include the Burton et al.'s project (2021), the ImpactYield database, the ISF advisor Fund Database and other impact investment mapping initiatives in Africa. We have also relied on specific information provided by impact investors themselves about teams they know and work with.

*Extract information about each investor*

From our final list of impact investors, we conducted in-depth online research by visiting investors' websites, analyzing their reports, and cross-referencing various data sources. We **collected basic information that characterizes the impact investors**, such as the name of their structure, the asset manager, its inception date, its type of structure, which refers to how the investors deploy their capital, and according to its status (private, public, or linked to a foundation), its assets under management (AUM), its geographic area of interest, its market sectors, the headquarters of the fund, and its portfolios.

After a quality control and validation of the list of investors by the leaders of the Impact Investing Chair and an external expert, the Chair's team was able to produce **a list of 255 investors active in Africa** that meet all the characteristics of an impact investment as defined above. All the information collected allowed the creation of an impact investment map, assessing the targeted sectors and SDGs to guide future investment projects, the financial instruments to determine investor practices. In addition, a series of interviews were conducted with some of the investors identified in our list. Their insights are invaluable and have contributed to this report.

For a limited number of investors, we also collect data on their investees. We **assemble information on 1,148 investees financed by 74 impact investors.**

*Limitations*

The database developed by FERDI's Impact Investing Chair has **limitations related to the quality and completeness of the available primary data**. Since the data collected is based on freely available data collected from various online sources, such as the Impact Investors Direct website, the database of foundations and organizations, our database is not exhaustive and not complete in terms of the 16 variables we aimed to collect. Moreover, it should be noted that each data entry is sensitive, as it has not been validated by the investors themselves. In fact, the criteria used to validate the characteristics of impact investors, the pursuit of financial returns alongside social and environmental ones, and the willingness and ability to measure their impact, as an independent structure, are based on declarative and accessible information. Their impact measurement can be questioned in the sense that some investors have an impact measurement process and others don't, or that some of them call impact measurement the activity tracking they practice; however, this will be the subject of FERDI's future agenda.

In addition, the variable of assets under management is also delicate because its amount is reported at a precise moment. However, since not all investors report their financial statements, AUM was not available for most investors. Where AUM is not available, the total of the investors' current assets that are already under management or will be under management at the end of the financial year has been used, with the fund size representing the total amount of assets that the investors are able to manage. Further details are provided in the notes.

*Interviews with fund managers*

In addition to data collection, we **conducted a series of interviews with some of the investors** identified through our methodology. The aim is to compare the data collected with the investors' speeches, but also to gain a deeper understanding of their vision, perspectives and challenges in the African market.

We contacted twenty impact investors by email in February 2024, sending them a prepared questionnaire with the information requested by the Chair and asking for a 30-minute meeting. As impact investors in Africa are both French and Anglo-Saxon, two versions of the email and questionnaire were prepared.

We received 7 positive responses, but only 6 had availability. We conducted the interviews via Teams, an online exchange application.

## B. The contribution of impact investing in Africa

Before describing the landscape of impact investors in Africa based on our data, it is important to **have an overview of impact investing's contribution to financial inflows on the continent, as well as its role in the economy**. We therefore combine data from different sources to better understand the true footprint of impact investing.

### 1. The limited size of impact investing financial flows in Africa

Impact investing is estimated to reach USD 1.164 trillion in assets under management (AUM) globally by 2022 (Hand et al., 2022). However, financial flows from impact investing remain relatively limited compared to other flows, as shown in the table below. While Sub-Saharan Africa receives 40% of total aid flows, **the continent attracts only 12% of impact investing flows**. This is more modest than the tiny share of foreign direct investment (3%) that African countries receive.

*Table 5: Financial repartition of investments per region (in Million USD)*

| ***Region*** | ***FDI received (2021)*** | ***FDI Weight per region[1]*** | ***ODA received (2021)*** | ***ODA Weight per region[1]*** | ***Total impact investments (2022)*** | ***Impact investments Weight per region[1]*** |
|---|---|---|---|---|---|---|
| *East Asia* | 545039,81 | 25% | -266,85 | 0% | 17903 | 9% |
| *Eastern Europe & Central Asia* | 83398,92 | 4% | 8351,33 | 6% | 17563 | 9% |
| *Latin America & Caribbean* | 207490,89 | 9% | 9784,72 | 7% | 46601 | 23% |
| *Middle East & North Africa* | 79595,18 | 4% | 27679,52 | 21% | 8478 | 4% |
| *Oceania* | 30654,69 | 1% | 2844,74 | 2% | 6826 | 3% |
| *South Asia* | 50056,96 | 2% | 21342,56 | 16% | 21706 | 11% |
| *Southeast Asia* | 229182,23 | 10% | 6578,26 | 5% | 7001 | 3% |
| *Sub-Saharan Africa* | 70151,15 | 3% | 53978,61 | 40% | 25132 | 12% |
| *U.S. & Canada* | 557918,34 | 25% | 0 | 0% | 35642 | 17% |
| *Western, Northern, & Southern Europe* | 339553,56 | 15% | 3252,25 | 2% | 18896 | 9% |
| *Total* | 2193041,73 | 100% | 133545,14 | 100% | 205748 | 100% |

*[1]: Ratio between financial flows per region to their total respectively*
***Source***: *WDI, GIIN*
*The series considered in this table are explicated in the appendix (Flows vs stocks)*

Starting from low levels, **impact investing enjoys a regular and significant growth**, i.e. a double digit across the five past years (Table 6). However, African impact investing **grows**

**slower than in the world** (18%). Impact investing soared mainly in OECD countries (North America and Europe).

*Table 6: Impact investment growth across geographic regions*

| *Region* | *2017* | *2022* | *CAGR* |
|---|---|---|---|
| *US & Canada* | 4190 | 35642 | 53.44% |
| *Europe* | 4479 | 18896 | 33.36% |
| *East Asia* | 6762 | 17903 | 21.50% |
| *Latin America & Carribbean* | 17887 | 46601 | 21.11% |
| *Oceania* | 3190 | 6826 | 16.43% |
| *South Asia* | 10789 | 21706 | 15.01% |
| *Sub-Saharan Africa* | 12940 | 25132 | 14.20% |
| *Southest Asia* | 6029 | 7001 | 3.03% |
| *Eastern Europe & Central Asia* | 15198 | 17563 | 2.93% |
| *Middle East & North Africa* | 8665 | 8478 | -0.44% |
| ***TOTAL*** | **90129** | **205748** | **17.95%** |

Note: This table represents a subset of respondents who provided data to both the 2018 Annual Impact Investor Survey and 2023 GIINsights. Source: GIIN. $CAGR = (\frac{Final\ value}{Initial\ value})^{1/N} - 1$

## 2. Impact investment contribution to the African Economy

Africa gross investment has been stagnating at around 22% of the GDP for a couple of decades, which is low compared to East Asia, for instance, and is comparable to the investment rates of OECD countries. Consequently, increasing both domestic investment by the mobilization and a better allocation of the rare net assets (savings) to impactful growth investments, and international FDI, including impact FDI, is critical to improving Africa's growth rate and dragging people out of poverty.

Impact investment is of particular interest for (i) it is targeting underserved markets (ii) it seeks to maximize the externalities of investment (iii) it cares for equality and closing the gender gap. Through impact investing, the capacity of the private sector to create jobs and stimulate economic growth plays a crucial role in the development trajectory is strengthened. It fits well into the international agenda for development in a broader sense. The investors interviewed support the idea that impact investing plays a crucial role in Africa's development path.

**At this stage, impact investing does not seem to be a game changer.** A back-to-the-envelope computation indicates that financial flows from impact investing represent 5 billion dollar per year of disbursement.[12] In any case, the flows are far from amount required to achieve the SDGs in the continent. The total amount of financial flows addressing

[12] It is currently impossible to convert assets under management into flows. A very audacious assumption could figure out that, if funds deploy their resources in an average of five years, then, 25 billion of AUM in Africa (Table 6) might correspond to around 5 billion of disbursements. This should of course be compounded by repayments and dividends, totally. This also does not take into count the fact that the 25 billion of aggregated AUMs have been raised over several generations.

development issues is insufficient and the annual financing gap needed to achieve the SGDs in developing countries, including Africa, is estimated at more than $4,2 trillion USD.

### *Example 10: LAITERIE DU BERGER*

**Dilemmas and questions regarding the economic quantitative assessment of an impact fund – the example of the "Laiterie du Berger" financed by I&P through their IPDEV (I&P Development) branch**


La Laiterie du Berger (LDB) is a fantastic success story. The firm was created in 2005 by a young veterinary, Bagoré Bathily. Its ambition was to source milk from local cattle raisers rather than imported powdered milk. Eighteen years later, LDB became a profitable and very fast-growing business, employing now around 1.000 staff, sourcing from around 800 breeders and farms, selling in 8.000 outlets across Senegal with a turnover of around 40 million euros. Its impact on the agricultural value chain, on nutrition, on income and GDP in Senegal is high. I&P accompanied this business even before its creation through its vehicle, IPDEV, which stands as its first investor, at a time when very little alternative funding options existed.

***Nevertheless, how to measure economic impact of the investment?***

I&P invested overall a little more than 700.000 Euros in this company over several years, and its profit was ultimately small, as it accompanied LDB at its very first years, before it became significantly profitable, during its "J curve" period. This period was strewn with deep and continued losses before the industrial, agricultural, managerial, commercial, and marketing problems were fixed and led to the wonderful success which was expected but took many years to reach.

***Should I&P economic performance and impact be limited to the value added and financial results at the time it sold its shares?***

LDB's story can by definition not be rewritten. But it is likely that LDB either would have not been created or would have been launched later and with more difficulties, or would not have survived, or would not have grown ultimately as fast, would an impact investor have accompanied it at the very beginning. **This is what additionality is about**. Should one compare the 700.000 euros invested, a minimum amount compared to the GDP of Senegal, FDIs to the country and its gross investment, at the time of the investment, or now? Should one take LDB's current numbers? Is it fair to do it, and until when? What is clear and should be noted is that the 700.000 euros figure does not represent I&P's contribution to the Senegalese growth. It is more significant. But how far?

This discussion can take place for nearly all impact investments in Africa, particularly the ones dedicated to start-ups and small SMEs without alternative access to funding. They fund those companies in early stage. The amount of the investment, or the value added at the time of the investment, is not representative of the accumulated investment and value added created.

But capturing and measuring the real impact of impact investing, its real contribution to the economy, is challenging, given the large volume of externalities it generates and the role it plays. The example of "La Laiterie du Berger" is symptomatic of the difficulty of assessing the real contribution of impact investing to development. It is a challenge for impact investors to present and measure their contribution to society. It is fair to say that their public communication is superficial. "Raison d'être" and mission statements are often present, but concrete goals and achievements are rare. Some impact investors publish their impact reports, which provide some insight into their activities. This partial information, however, allows us to see that the **impact of these financial vehicles goes beyond the value added or strict GDP contribution**, which is unfortunately rarely shared. Even if their impact measurement methodologies are questionable, as mentioned above, some impact investors disclose information on various metrics related to their activities.

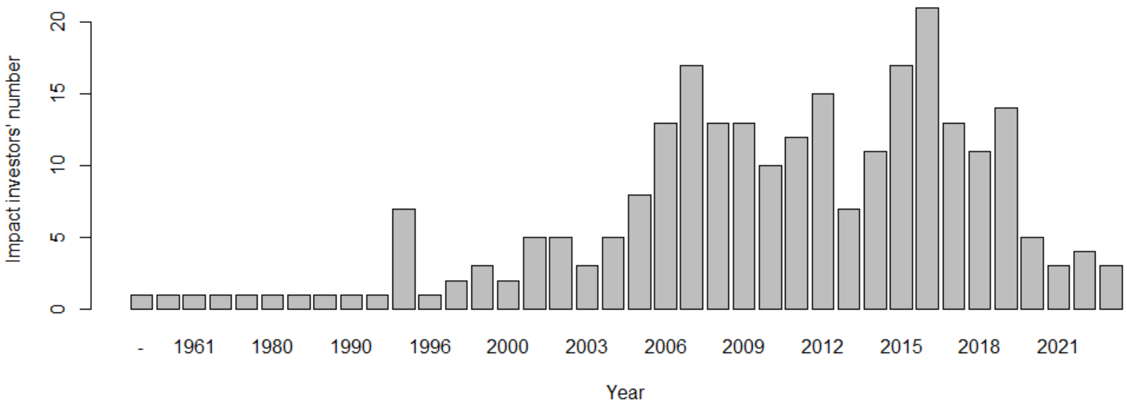
## C. The landscape of impact investors in Africa

Data collected by our team allows us to identify 255 different impact investors active on the continent. As mentioned above, we collect 16 characteristics for each of them, allowing us to provide a snapshot of impact investing in Africa in 2023. In addition, we were able to extract data on 1,148 investments for 74 investors. We exploit these data to **draw the landscape of impact investing in Africa in 2023**.

### 1. The dynamics of impact investors inception

The **impact investing is a recent industry in Africa** (and elsewhere). The following figure presents the number of impact investors in the African scope based on their inception date. The overall story is of a significant growth trend from the early years of the century, before which impact investment was rare, to around the covid years, which seem to have stopped or largely slowed down the creation trend.

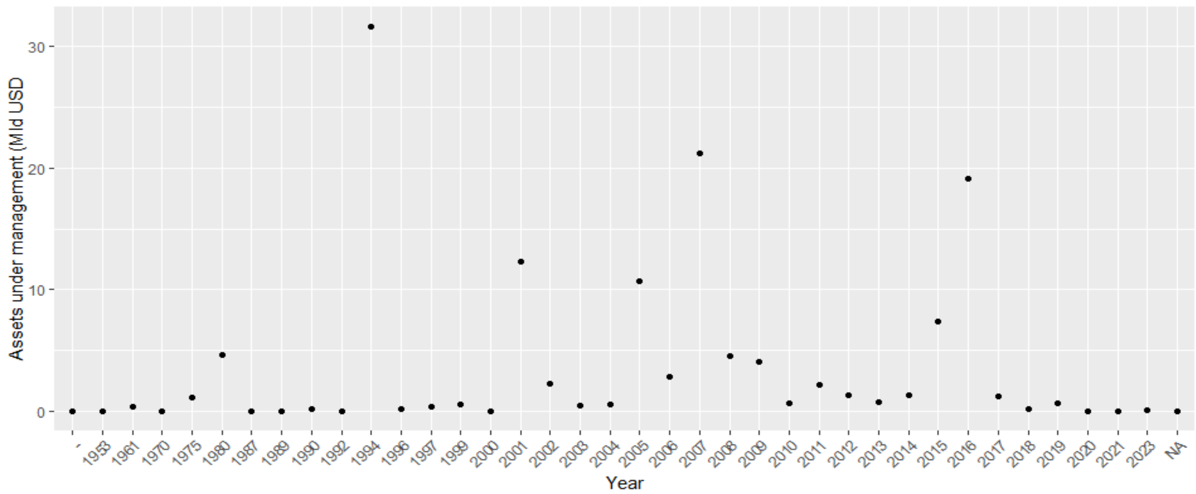
*Figure 4: Inception date analysis: The expanding landscape of impact investors*




**<u>Source:</u>** FERDI's production based on the Chair's database

The following figure indicates that the funds who have the highest actual ones were created in the years of "impact exuberance" in Africa. Even the funds addressing SMEs seem to be larger than before, and of course than the most recent ones. The" exuberant fifteen" (2002 – 2018), combined with the crawling-up syndrome may provide an explanation for the evolution of AUMs and explain why impact investors created several years ago manage higher AUMs.

*Figure 5: Investors' inception date and their current total AUM reported (end of 2023)*




**Source:** FERDI's production based on the Chair's database

Regarding the maturity and the number of funds, several reasons may explain the trend we discover.

One comes from the demand side: the slow-down of the African economy after 2019 may have affected the creation of new funds. While this is possible, the limited number of impact investors, the small size of their assets, all of this compared to the size of the African GDP and overall investment volumes tend not to bend in this direction. The maturity of the existing funds could also lead them to better and better cover the investment opportunities, and there would be less need for emerging teams and vehicles. Given again the very limited number of existing funds, although not impossible, this does not seem fully convincing.

A better explanation may come from the supply side. Despite the growing interest in the development policy, emerging fund managers have probably faced new fundraising challenges in the recent years. International private investors have largely disappeared as capital allocators. The first two decades of the century had witnessed a fast-raising interest for private investors in Africa. This has been translated into larger amounts of FDI. Many of them have seen impact investing as a model which could either help their social responsibility strategies or bring them co-strategic benefits. However, private investors have reassessed down the level of priority of the African area in their financial strategies in the past five years because of different crisis: covid, the Russia-Ukraine war, the evolution of the macroeconomic landscape, and the de-risking strategies of large corporations. DFIs have also been confronted during the covid years to macroeconomic challenges and have not been able to play a wide contracyclical role. Their own financial constraints have in several cases led them to focus on the most profitable parts of the African market, despite the recent apparition of large donors, such as the EU and the World Bank, as major allocators of capital. Foundations have taken a new place in the ecosystem, but it is still recent and showing slowly in the figures.

Crawling-up is another possibility for partial explanation of those trends. The general trend of private equity funds (PE) is to grow overtime: the growth of the AUM and the average size of PE funds' investments need to increase to remain sustainable and absorb their rising human resources' costs, keeping management costs under control. Some impact funds resist this trend and try to remain small, so that the size of their investments can continue supporting SMEs and start-ups, but this is in general at the expense of their management costs and ultimately their profitability. Fighting the "crawling-up" syndrome is not easy and failing to do it move some funds out of the impact landscape. This can also explain the numbers above.

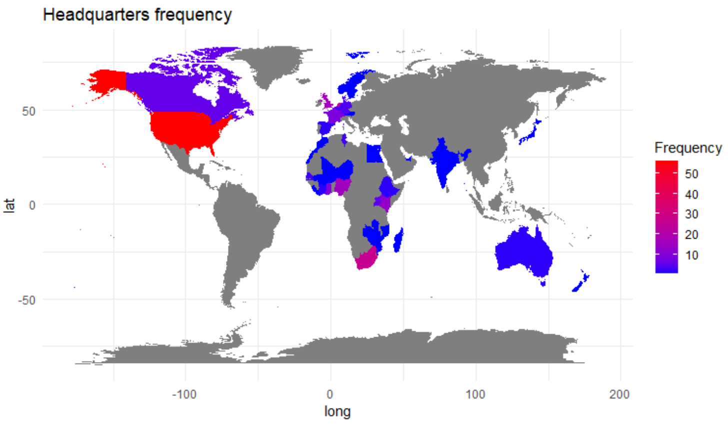
Anyway, this will be an area for further research, and measuring this trend will be important to understand the dynamics and the impact of the sector.

## 2. Geography of impact investors and investees

One of the main fact reveals by our data is that **almost all impact investors operating in Africa are from outside of the African continent**. They are mainly headquartered in North America and Europe as showed by the Panel A of the following figure. The part of local investors is quite minimal, and they only represent 16% of the actual total assets under management (Panel B). Furthermore, even among African investors, their geographical origin of funds is very concentrated. More than half of African funds (58%) are from Nigeria. It also has to be noted that the disconnect is even greater when it comes to the nationality of the capital allocators, nearly all located outside of Africa.

*Figure 6: Investors' nationality*

***Panel A: All investors (n=255)***




***Panel B: African investors (n=255)***

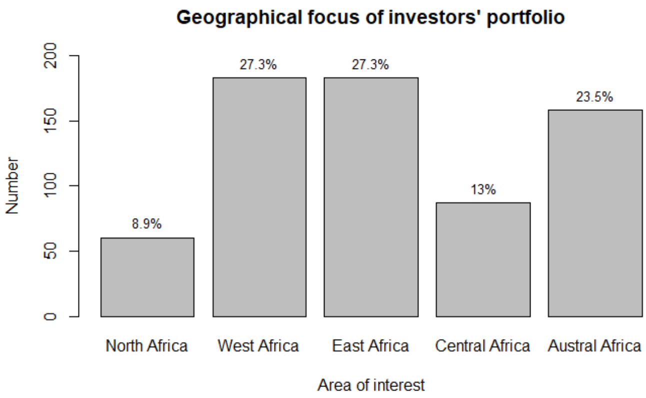
| *Headquarter's location* | *Number of investors* | *Assets (in Mlds USD)* |
|---|---|---|
| *Burkina Faso* | 1 | 0,00 |
| *Egypt* | 1 | 0,30 |
| *Ethiopia* | 2 | 0,28 |
| *Ghana* | 10 | 0,59 |
| *Ivory Coast* | 2 | 0,01 |
| *Kenya* | 13 | 0,82 |
| *Liberia* | 1 | 0,03 |
| *Madagascar* | 1 | 0,02 |
| *Mali* | 1 | 0,00 |
| *Mauritius* | 11 | 3,92 |
| *Morocco* | 1 | 0,00 |
| *Mozambique* | 1 | 0,01 |
| *Niger* | 1 | 0,00 |
| *Nigeria* | 16 | 12,15 |
| *Senegal* | 3 | 0,01 |
| *Sierra Leone* | 1 | 0,02 |
| *South Africa* | 27 | 2,35 |
| *Tunisia* | 3 | 0,42 |
| *Uganda* | 5 | 0,05 |
| *Zambia* | 1 | 0,00 |
| *Zimbabwe* | 1 | 0,00 |
| | 103 | 20,99* |
| | | (*16%of total assets managed by all investors) |

<u>**Source:**</u> FERDI's production based on the Chair's database

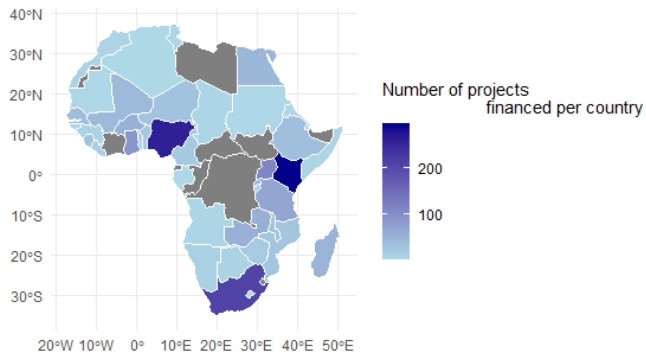
The following figure displays the location of investments made in Africa by impact investors. The portfolios of the investors/funds are concentrated in a handful of countries the sub-Saharan region, and particularly in West, East and Southern Africa (see Appendix for a classification of countries) as indicated in Panel A. We have extracted the portfolio of investees of 74 investors, representing 1,148 investees. The analysis documents that **most investees are located in Nigeria, Kenya, and South Africa** (Panel B).

Figure 7: Geographical footprint of investors

***Panel A: Region of interest of investors (n=255 investors)***



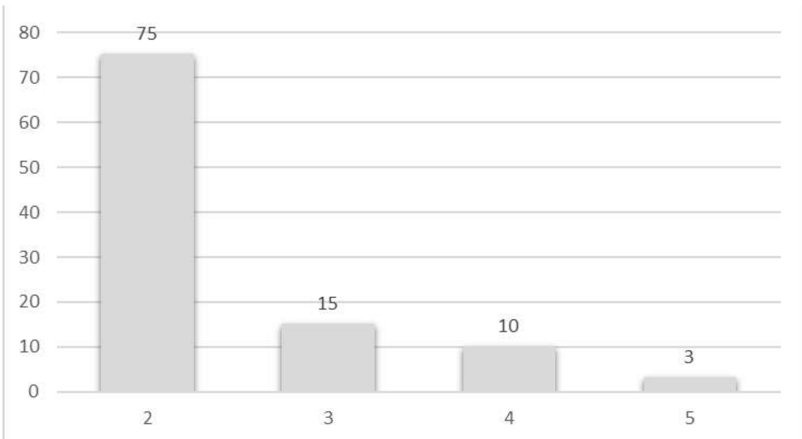

***Panel B: Distribution of investees (n=1,148 investees from 74 investors)***




**Source:** FERDI's production based on the Chair's database

One of the reasons for this concentration is the existence of co-investment by African impact investors. There are situations where several investors finance the same investee. Co-investing is a real practice: among the 1,148 investees, 9% of them are financed by more than 1 impact investor (103 out of 1,148) as shown in Figure 8. The majority has two investors and three have 5 investors: Apollo Agriculture, Good Nature Agro, and Max.ng.

*Figure 8: Number of investees financed by more than one investor*




**Source:** FERDI's production based on the Chair's database. Among 1148 investees, 1,045 are financed by one investor only (unreported here) and 103 by more than one investor (reported here).

### 3. The dominance of a handful of mega-investors

We then examine the distribution of investors according to their size based on their assets under management. We consider four categories:

- Micro funds: manage less than $1 million;
- Mid-sized funds: managing between $1 million and $250 million;
- Large funds: managing between $250 million and $1 billion;
- Mega funds: managing more than $1 billion.

The following table provides some examples of funds in each category.

*Table 7: Examples of investors in each category*

| | |
|---|---|
| Micro<br>• Janngo<br>• EWB Ventures<br>• WIC Capital<br>• Social Alpha<br>• Growth Capital Fund<br>• Vakayi Capital | Medium<br>• Jacana Partners<br>• Novastar Ventures<br>• Capria Ventures<br>• Investment Fund for Health in Africa<br>• Broad Cove Capital<br>• Green for growth fund<br>• I&P |
| Large<br>• Microtraction<br>• Inoks Capital<br>• Ceniarth<br>• Convergence Partners (Africa)<br>• ICF, Debt Pool<br>• SANAD Fund for MSME | Mega<br>• Climate Fund Managers<br>• ResponsAbility<br>• Lightrock<br>• Symbiotics<br>• Cathay Innovation<br>• Barak Fund Management |

As indicated in the following table, we are unable to collect data on assets under management for 58 funds (22.7%). The **majority of funds are medium-sized funds** as they account for more than half of all investors. Thirty-three funds (12.9%) are considered as large funds and 18 as mega-funds (7.1%). **However, mega-funds accounts for more 80% of assets under management.** Indeed, only one of the top 5 of these mega investors is from Africa and was created in 2007 (Table 9). No new mega fund has come to life since 2016, and the dynamism seems to be mostly in the mid-size funds, as indicated in Figure 9.

Furthermore, considering the possible relationship between the weight of the funds and their geographical interest on the African continent, most of them invest in Nigeria, Kenya, and South Africa, in line with results provided by Figure 7.

*Table 8: Distribution of funds by size category*

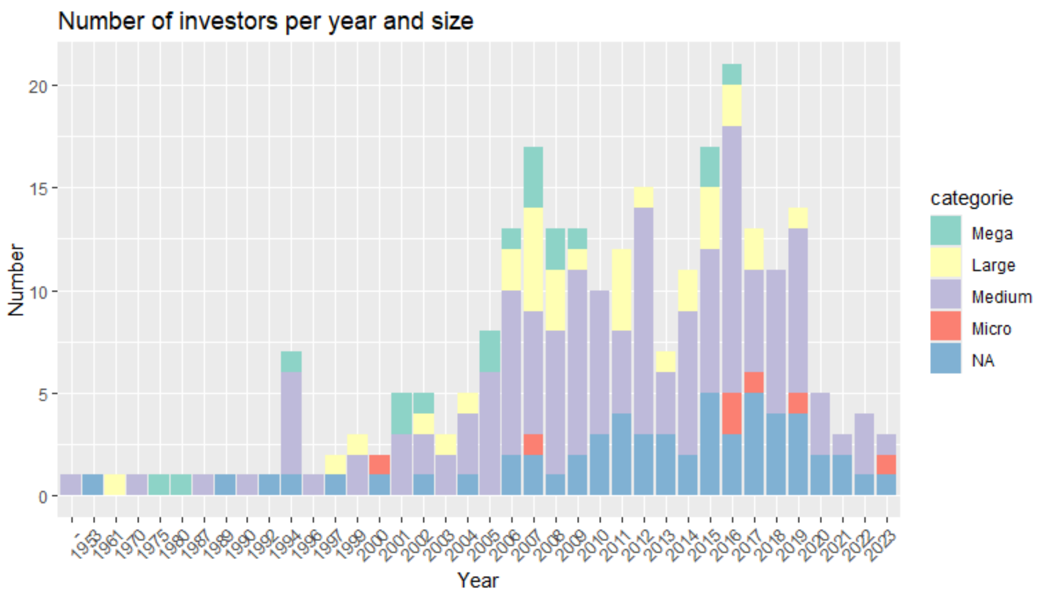
| | Number | | AUM | |
|---|---|---|---|---|
| | Sum | % | Sum | % |
| Micro | 7 | 2.7 | 0 | 0 |
| Medium | 139 | 54.5 | 9.1 | 6.8 |
| Large | 33 | 12.9 | 15.9 | 11.9 |
| Mega | 18 | 7.1 | 108.5 | 81.3 |
| NA | 58 | 22.7 | 0 | 0 |
| TOTAL | 255 | 100 | 133.5 | 100 |

**Source:** FERDI's production based on the Chair's database

Table 9: Top 5 mega impact investors identified in the Chair's database

| *Investor* | *Inception date* | *Type* | *Asset (in Mlds USD)* | *SIZE* | *HEADQUARTER* | *AREA* |
|---|---|---|---|---|---|---|
| *Mirova* | 1994 | Private Equity/Venture Fund | 31,3 | Mega | France | Europe |
| *The Rise Fund* | 2016 | Private Equity/Venture Fund | 18 | Mega | USA | North America |
| *BlueOrchard Finance* | 2001 | Multi-financing private funds | 10,8 | Mega | Switzerland | Europe |
| *Africa Finance Corporation (AFC)* | 2007 | Multi-financing private funds | 10,5 | Mega | Nigeria | West Africa |
| *New Forests* | 2005 | Private Equity/Venture Fund | 7,3 | Mega | Australia | Oceania |

*Figure 9: Number of investors per year and size*



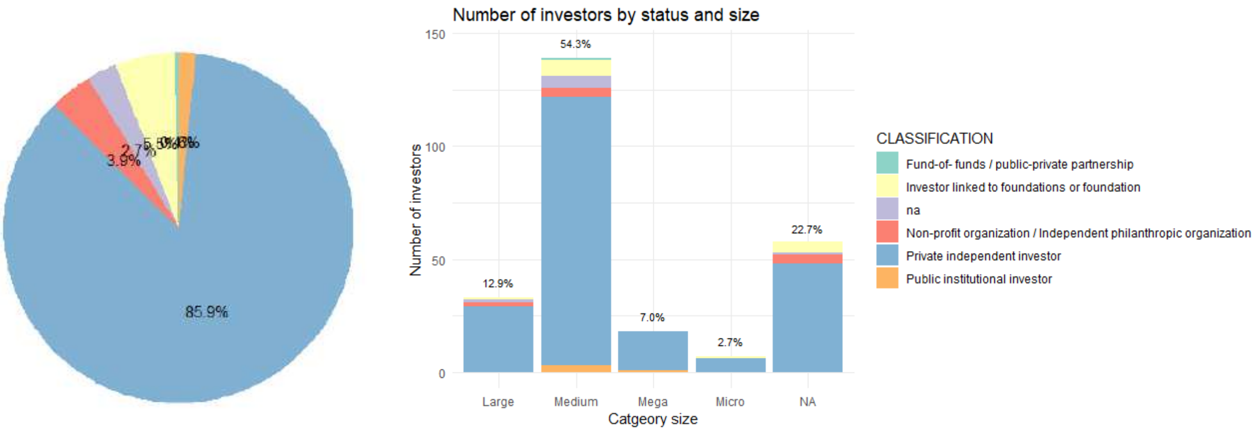

**Source:** FERDI's production based on the Chair's database

## 4. Legal structure and financial instruments

Given the diversity of actors among the impact investors identified in our database, we created a categorization based on the legal status of the investors. This categorization provides an overview of the type of impact investor and somewhat explains the dynamics of the market and the sector supporting the ecosystem in Africa. The private sector represents almost 85% of impact investors in Africa as indicated in the Figure below.

As majority of the impact investors identified in the database are private independent investors, they also represent a large part of each size category.

*Figure 10: Type of investors by status*




**<u>Source:</u>** FERDI's production based on the Chair's database

As there is a wide range of investors, the type of financial instruments they use to invest also provides information on their identity. Impact investors use different types of financial instruments: equity, mezzanine (here, this will include all types of debt-like structured contributions to equity), debt, guarantees. Identifying the type of financial instrument, a specific fund utilizes can be more challenging than one might assume.

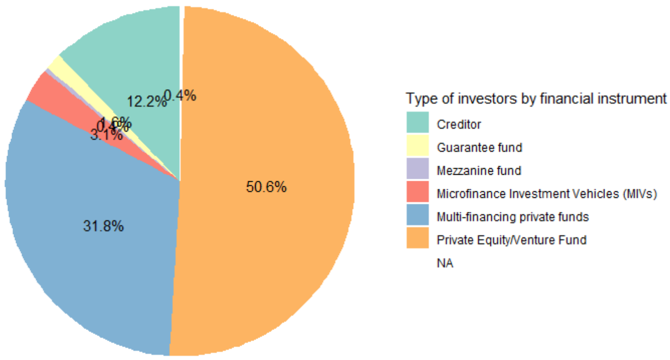
Figure 11 indicates that **equity financing can be assessed as representing around 50%** of the contributions, but equity funds also use mezzanine structures. Multi-financing private funds use both debt and equity, but it is not possible to disaggregate into which proportions. Creditors should be less than 12% overall of impact financial contributions.

This focus on equity relates to the analysis that most African corporations lack capital, due to local savings levels and financial system flaws. This lack of capital has a direct influence on debt availability, which is less than it should be, due to the poor level of capitalization of African corporations. Banks are also seen as the institutions which should provide debt. Nevertheless, the shallowness of the debt market makes the case for debt funds, which may focus on underserved countries or sectors, or find competitive niches, helping small businesses accessing quickly and efficiently short term or long-term debt. Maturities are of course an important case for debt fund, which can lend longer than banks at acceptable prices, but in some cases, like in agriculture, flaws in the banking sector create a space for short-term credit funds, or equity funds providing themselves debt to the corporations they invest in.

*Figure 11: Type of investors by financial instrument used*

Investors are split as follows:

I. Private equity/venture fund: 50,6%
II. Multi-financing private funds: 31,8%
III. Creditors: 12,2%
IV. Microfinance investment vehicles: 3,1%
V. Guarantee fund: 1,6%
VI. Mezzanine fund: 0,4%




**Source:** FERDI's production based on the Chair's database

## 5. The activity sectors addressed by African impact investors

Based on the Chair's database, 60 different sectors are attracting the attention of impact investors in Africa. The chart below, showing the top 10 investment sectors, provides critical insights into the current investment landscape. The repartition of sectors illustrates how the impact industry has at the same time the wish to address key development challenges and needs to find sustainable economic models.

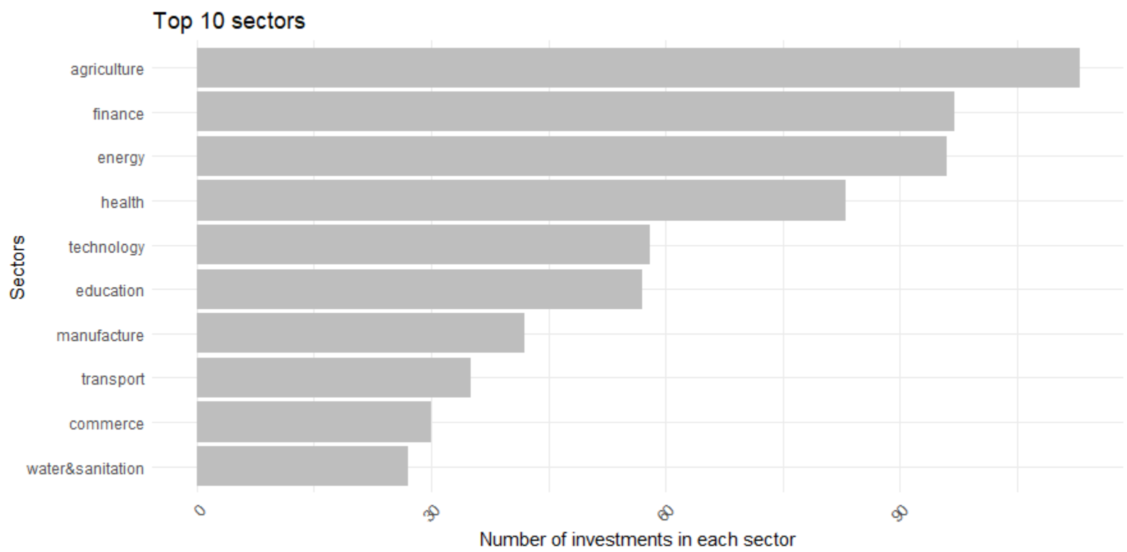
The **prominence of "Agriculture" at the top of investment priorities** underscores the sector's robust appeal, likely influenced by its primary need in the African market and its importance to the African economy.

**"Energy" and "Finance" (including microfinance) follow closely behind**. These top 10 sectors reflect the continent's key themes and development challenges.

This probably explains the low priority of the manufacturing sector, despite its growth opportunities. On the other hand, it also explains the low ranking of water and sanitation: the lack of financially sustainable models, despite its major importance among the development needs of the continent is probably the reason for this unfortunate place.

At the other end of the spectrum, the impact industry has played a key role for the development of decentralized green energy through solar home systems (SHS), consumer and industry solar systems or small grids. Decentralized green energy is a great example of how impact investment can help growing innovation and creating markets as indicated in the following example. Africa is home and world leader in this exciting breakthrough. The central role of agriculture is also driven by the importance of this sector in the continent.

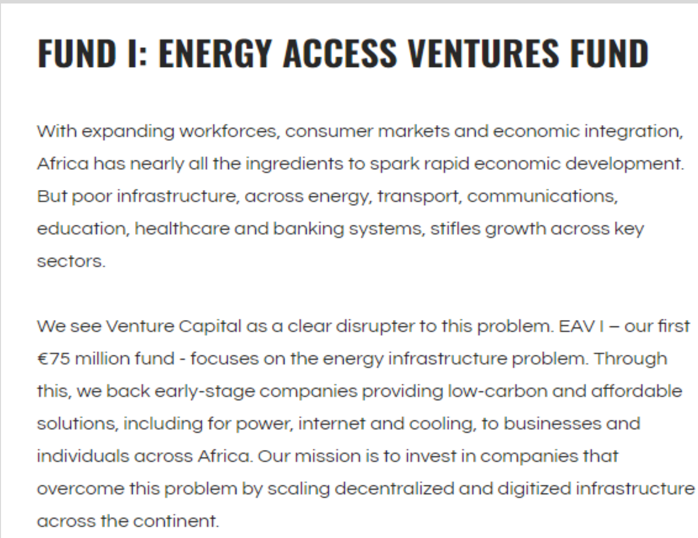
*Figure 12: Impact investors top 10 sectors in Africa*




**Source:** FERDI's production based on the Chair's database

**Example 11: E3 CAPITAL FUND (ex- Energy Access Ventures)**

EAV has been promoted by Schneider Electric, based on their previous experience of decentralized energy, and supported by large DFIs like EIB, BII, Proparco, etc. Alongside with other international funds, many of them based in Kenya, it has played a key role in developing the green decentralized African energy sector, taking risks in supporting emerging businesses.



FUND I: ENERGY ACCESS VENTURES FUND

With expanding workforces, consumer markets and economic integration, Africa has nearly all the ingredients to spark rapid economic development. But poor infrastructure, across energy, transport, communications, education, healthcare and banking systems, stifles growth across key sectors.

We see Venture Capital as a clear disrupter to this problem. EAV I – our first €75 million fund - focuses on the energy infrastructure problem. Through this, we back early-stage companies providing low-carbon and affordable solutions, including for power, internet and cooling, to businesses and individuals across Africa. Our mission is to invest in companies that overcome this problem by scaling decentralized and digitized infrastructure across the continent.

**_Box 7: The role of impact investing in Agriculture_**

Agriculture accounts for a significant share of Africa's economic activity, contributing nearly one-fifth of the continent's GDP, but often more than one-third of GDP in many low-income countries such as Central African Republic, Mali, Niger or Sierra Leone. The sector provides employment for more than one in two Africans on the continent, according to the World Bank. In addition, agriculture is a primary source of livelihood for millions of people, especially in rural areas where alternative employment opportunities may be limited (Christiaensen and Maertens, 2022). Moreover, the agricultural sector plays a critical role in Africa's exports, with products such as cocoa, coffee, tea, and various fruits and vegetables being major contributors to international trade. Improving the productivity and competitiveness of these agricultural exports can lead to increased foreign exchange earnings and economic growth. Finally, transitioning the agricultural sector towards sustainability and resilience is critical for Africa's long-term development. This means adopting practices that increase productivity while conserving natural resources such as soil and water.

The importance of the agricultural sector in economic, social and environmental terms and the challenges facing the sector require increased funding for the sector. However, the sector suffers from a lack of both public and private (domestic and international) financing. Public spending on the agricultural sector is often limited. In the WAEMU, for example, public expenditure dedicated to the sector represents less than 5% of total public expenditure (Ferdi, 2024). Private financing for the agricultural sector is also very limited. Less than one tenth of the credit provided by commercial banks is dedicated to agriculture (Léon, 2018). A limited number of foreign direct investments attracted by the continent are dedicated to the sector (Ben Slimane et al., 2018).

The causes of underinvestment in the agricultural sector are explained by the limited returns coupled with the high (perceived) risks of agricultural investments. Low financial inclusion and high levels of informality make it difficult for lenders to assess risk. In addition, transaction costs (administrative/procedural costs, due diligence, etc.) do not vary much with the size of the enterprise, making it much more expensive to finance small enterprises with lower yields. Moreover, financial instruments are not suited to (i) the seasonal nature of agricultural activities and (ii) the long-term investments required in agricultural enterprises. Agricultural enterprises in general, and even more so in Africa (given the structural and institutional factors of the African context), are risky ventures. Agriculture is very sensitive to the negative and often unpredictable effects of climate change, and it has also faced a series of crises in recent years - COVID, the effects of the war in Ukraine, inflation. In the coming decades, the transformation of agriculture and rural areas (and therefore significant and effective investment in the sector) will be crucial for jobs, economic growth and development on the continent, as well as for ensuring global food security.

By accepting lower returns and internalizing the potentially powerful impact of financing agriculture, impact investors are becoming important players in the game. Our dataset shows that this sector is the first to be targeted by impact investors operating on the continent. Of the 225 investors identified, 140 include agriculture in their sectors of interest and 19 impact investors focus exclusively on agriculture. In the table below, we note that these funds tend to have more assets under management than their counterparts, but are less likely to be headquartered in Africa.

Funds targeting agriculture

| | Number of funds | | AUM | | HQ in Africa | |
|---|---|---|---|---|---|---|
| | Value | % | Value | % | Value | % |
| - Only Agriculture | 19 | 8 | 92.7 | 18 | 7 | 37 |
| -Include Agriculture | 140 | 62 | 356.2 | 68 | 52 | 37 |
| TOTAL | 225 | 100 | 525.8 | 100 | 98 | 44 |

Source: FERDI database, authors' computation

We then use investee data collected for a sub-sample of 74 investors. The database collects information on 1,833 investments. About 14% of the investees are active in agriculture (205 investees) or agri-food (49 firms). Interestingly, the geography of the investees presents a different picture when we look at all investees or investees operating in agriculture. If we look at all sectors, investees can be found throughout Africa (53 countries), while investees operating in agriculture are present in only 26 countries. However, investees in agriculture are more likely to be located in the least developed countries. When looking at all investments, regardless of sector, three countries dominate (Kenya, Nigeria and South Africa), accounting for 40% of the total number of investments (first columns of the following table). The geographic footprint of agricultural investments varies widely. The top three countries in terms of absolute number of investments are Kenya, Tanzania, and Ghana (Nigeria and South Africa are ranked 8th and 9th, respectively), as shown in the second columns. Concentration is also reduced, as the top 3 countries account for only 30% of all agricultural investments. Meanwhile, if we look at the relative number of investees in agriculture to the total number of investees, we see that the relative number of agricultural investees is higher in low-income countries. Among the top 10 countries (last columns of the following table), seven are low-income countries. The remaining three are lower-middle-income countries (Eswatini, Zambia, and Tanzania). For comparison, only two of the top 10 countries for all investments are low-income countries, Uganda and Burkina Faso.

Table: To 10 countries in terms of the number of investees

| | All investees | | Agriculture (absolute) | | Agriculture (relative) | |
|---|---|---|---|---|---|---|
| Rank | Country | Nb. | Country | Nb. | Country | % |
| 1st | Kenya | 293 | Kenya | 42 | Madagascar | 46 |
| 2nd | Nigeria | 258 | Tanzania | 18 | Niger | 33 |
| 3rd | South Africa | 206 | Uganda | 17 | Burundi | 33 |
| 4th | Uganda | 110 | Ghana | 17 | Eswatini | 33 |
| 5th | Ghana | 103 | Madagascar | 16 | Zambia | 27 |
| 6th | Senegal | 83 | Nigeria | 15 | Burkina Faso | 27 |
| 7th | Ivory Coast | 81 | Burkina Faso | 15 | Tanzania | 26 |
| 8th | Tanzania | 68 | Zambia | 15 | Rwanda | 24 |
| 9th | Burkina Faso | 56 | South Africa | 13 | Ethiopia | 20 |
| 10th | Zambia | 55 | Rwanda | 12 | Sierra Leone | 20 |
| *Rest* | *43 countries* | *520* | *15 countries* | *74* | *Average* | *11* |
| *TOTAL* | | *1833* | | *254* | | |

Source: FERDI database, authors' computation.

## D. Challenges faced by impact investing in Africa

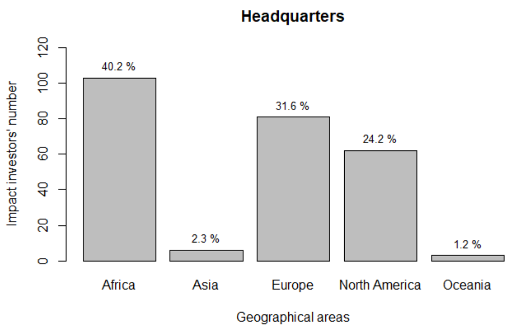
The Impact Investing **Chair interviewed some investors to learn more about the obstacles they faced on the African continent**. Based on these interviews (see Appendix B for details), several challenges faced by African impact investors were reported. They don't represent the totality of the challenges met by impact investors, but this set of issues helps diving into some of the problems of the sector.

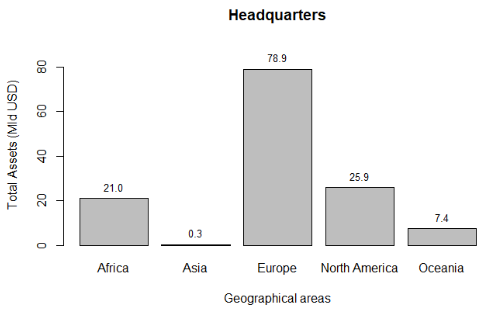
They are of six types:

### 1. The lack of local investors

One of the main characteristics of impact investment in Africa is the diversity of actors' nationality across the capital spectrum. In terms of actual assets under management, a large proportion of assets come from European and North American investors, with only 16% coming from the African market.

*Figure 13: Frequency of investors' headquarters and their assets weight.*




**<u>Source:</u>** FERDI's production based on the Chair's database
**<u>Note</u>**: 2/3 of the investors and funds are headquartered outside Africa. More than 1/3 are based in Europe and only 1/3 are from the Africa continent.

As there is a divergence between the nationalities of investors and investees, this also affects the investment strategy in the African market. Indeed, there is a dilemma between investing in the local currency of the investee company or in the currency of the investors ("currency mismatch"), which often leads to a currency mismatch. Market shocks, whether in the exchange rate or in the macroeconomic situation of the destination country, or inflation, which may or may not devalue the local currency, can block the allocation of funds. The political climate plays an additional role in this balance, and the African environment is not the most viable market for impact investors.

### 2. Difficulty to raise fund

For most impact investors, fund raising is a major issue. They face important obstacles to access capital, but procedural barriers as well as time for fund raising are highlighted as important problems for the entire sector. It is often mentioned that two years are a minimum to raise a fund. New funds now emerge rarely, as evidenced above, creation costs are high (legal documentation, time to pre-identify the deal-flow, etc.) and negotiation periods with investors interminable.

This is probably linked to the evolution of capital allocators which has also been evidenced above. The market appears now completely led by foundations and the DFIs. Most foundations appear flexible and can be quick, even if they may have strong demands. But DFIs are said by impact investors to be inaccessible to first-time/first-team funds, and have very heavy, cumbersome, costly, and long-lasting processes with limited vision of the final outcomes and opaque decision processes. This is why the apparition of initiatives like the MasterCard Foundation Africa Growth fund or the NORAID-USAID FASA is of particular importance: it opens the possibility of a new wave of impact investors, which has strongly diminished since 2018.

Impact funds interviewed also highlight the emergence of large donating agencies as capital allocators, which is changing the landscape in several ways. The World Bank (with the private sector window of IDA, "PSW") and the EU have established large facilities to help "blending" to accelerate. Blending allows public and private money to be associated in impact funds and is supposed to help private investors to lower their risk levels or increase their profitability perspective to a level which allows them to invest in impact funds. This is considered as good news and a perspective that should unlock capital allocation to impact funds. Nevertheless, actual disbursements so far seem to have been limited in Africa (World Bank, 2024). Few impact funds report actual funding from the BFF component of the PSW through IFC, or contribution from the EU. But this could come overtime as those facilities are still relatively recent. It is also highlighted that blending money tends to support DFIs (IFC in the case of the PSW and EDFIs in the case of the EU), to ease their own economic models. This strengthens the role of DFIs in the impact investment allocation, with all the bottlenecks associated with it.

### 3. Workforce's lack of qualified skills

Many impact investors report the quality and level of the workforce as a non-negligible challenge. This is the case for the companies they invest in. Even if the investee company meets all the eligibility criteria to receive funding, hiring new employees remains a challenge due to the lack of staff capable of supporting the scalability process or even performing due diligence prior to investment projects. But this is also an important hurdle for the impact funds themselves. They must hire highly qualified staff and are facing competition from the entire financial sector. DFIs themselves, as well as development agencies, which can offer often higher salaries than what the economic model of the impact investors allow them to afford, especially in the SME segment, have become competitors in the labor market.

### 4. Lack of data and qualified skills for impact measurement management (IMM)

The methodology used by some impact investors, if they do not use a consulting group to measure their impact, is not reliable and often based on discussions with investees. In addition, some impact investors do not disclose information about their impact measurement or the impact they have evaluated, despite the need for these measures, not only for the investors' decision-making process, but also to qualify their precise added value for achieving the SDGs.

Impact investors are aware that the lack of credibility in the measurement of impact induces a difficulty to attract investors and raises doubts about new initiatives. However, they are often prevented to make progress by capacity limitations (lack of staff with economic competence), the cost of evaluation systems, and important HR market limitations: even if they have the resources to hire impact measurement staff, they find these people only difficultly on the African labour market. Most stress that impact investment managements fees must be consistent with the investors' requests for more information and data on impacts.

## 5. Currency risks

Recent years have been terrible for African currencies. Impact investors report they have been quite affected by this macroeconomic issue. Capital allocators are mostly located outside Africa. International investors invest in hard currency money, often through Mauritius. Either the fund's equity is denominated in dollars or euros. This affects deeply the financial returns of the impact funds, whether their capital is subscribed in hard or local currencies. This may be an additional reason for the decline in impact investment funding since the COVID, and the limited domestic financial markets.

This is a reason why impact investors welcome the currency risk mitigation instruments some of the new blending facilities such as PSW are introducing. The same comment is nevertheless done, i.e., limited implementation visible so far.

## 6. Exits

Exits from investments are often mentioned as an important hurdle for impact investors.

Though different funds are facing different challenges, difficulty to exit is globally due to the limited size of the impact investment ecosystem on the one end, few investments having at exit a size that regular "commercial" funds can consider (which means that more impact investment funds are needed to help liquidity), the limited number of existing African strategic investors (i.e. African corporates able to buy out impact funds) and the lack of international investors interested in African SMEs. This means impact investors tend to use self-liquidating financial structures with less profitability than straight equity, for instance, or sell back their shares to the SMEs owners and promoters (who can often pay limited values) or resort to very low multiples at exit because of this lack of competition between potential buyers.

This is why current foundations strategic thinking regarding the secondary market are quite important.

## Conclusion and proposals

The report provides a unique and comprehensive overview of the landscape of impact investing in Africa, shedding light on its growth, challenges, and unique characteristics. The database compiled by the FERDI Impact Investment Chair reveals key insights into the landscape.

Despite apparent modest numbers, impact investment likely already plays a key role in Africa, supporting start-ups and SMEs, being a front runner in the fight for job creation, and addressing key challenges with huge externalities such as food, climate, energy, gender, or health. Impact investors also play a key role in innovation, through their support of start-ups. Some funds, like Novastar, are specialized in supporting innovation, but most impact investors are key to its acceleration.

However, the sector faces obstacles. Though dynamic, it probably grows slower than it could and the limited emergence of new players in the past years is worrying. It faces all the private sector's challenges in Africa, such as limited domestic financial markets, macroeconomic uncertainties, and a shortage of skilled labor. However, these challenges are likely amplified when operating in the poorest and most fragile countries or addressing innovative markets. It is geographically unbalanced, with the largest economies, like Nigeria and South Africa, or Eastern Africa, benefiting from significantly higher levels of investments than western Africa.

Furthermore, the elaboration of the report has also demonstrated a significant opaqueness of the impact investing sector at all levels: even impacts are not that frequently clearly presented by impact investors; impact measurement methodologies are rarely described and, when this is the case, it often appears relatively weak; financial performance is never disclosed. Even DFIs and development agencies provide very limited information on all those issues.

FERDI's Impact Investing Chair intends over the years to contribute to better understanding, improve the quality, standardize, and enhance the performance of impact investing in the region. Future efforts will aim to further elucidate impact investing, support new initiatives to enhance its quality and funding, and make policy proposals. This is particularly important because, beyond investment volumes, impact investing stands out as one of the very few tools available to policymakers for addressing social, environmental, and gender agendas within the private sector.

A first wave of proposals is presented in this report.

**First, the impact industry in Africa should receive better and increased funding, and more African-based teams should emerge.** Given the situation of international financial markets, foundations, and both the international and African public sector should and can do a lot.

A first direction is for donor agencies to increase their contribution to blended structures that would help impact investors' fundraising. First steps in this direction are highly commended and noticeable. But the facilities that have been created should (i) not be accessible only to DFIs but also to private investors and impact funds themselves (ii) should be less bureaucratic and less costly to access (iii) should accelerate their disbursements. African governments can also do more and better to fund this sector through their sovereign funds, or public financial institutions this sector. It is a cheap way to promote growth and employment.

A second direction is the establishment of more funds of funds, which can help first-time/first team funds to come into business, but also follow-up on the successor funds. A major first step has been taken with the Mastercard Foundation and the subsequent FASA initiative. But more is needed. Of course, in a certain way DFIs are already public funds of funds – however, their engagement policies and their economic model tie them and strongly limit their contribution to impact investing. New efforts must be made to bring in the game the large private institutional investors, such as pension funds by addressing the barriers they face to support impact investing, actually including profitability, but also and maybe more importantly liquidity and size of their tickets. Fund of funds is a way to allow them to invest a large amount in liquid assets.

**Second, mechanisms to mitigate risks and enhance financial sustainability of impact funds should receive greater attention.**

The role of impact investors is to identify, fund and support high-performing companies. While impact investors do not target market rate, they need to be financial sustainable. However, the performance of funds in Africa is hampered by specific issues as currency risk and the challenge of exit. Policymakers and agents of change should focus more on both issues. One way is to focus part of the blending facilities more explicitly on currency risk covering.

Another way is to improve the impact investing ecosystem, to create secondary market facilities or initiatives but also accept the limited financial performance of impact funds targeting underserved markets.

This also leads to a strong recommendation to change financial structures common practices. The typical 5+5+2 years closed-end equity fund structure is poorly suited to impact investment. Longer maturities are needed to improve the profitability but also the impact sustainability of the impact funds. When possible, evergreen structures (i.e. financial companies) should be preferred, even with liquidity arrangements, guaranteeing an exit possibility for shareholders or investors.

**Third, the quality of the funds themselves should be improved, especially on the impact side.**

Impact funds have very variable sizes and experience. Many funds are still recent and only partially tested.

Capacity building initiatives should be increased, including technical assistance to the fund managers, training, and exchanges between impact investors. The community of impact investing in Africa is poorly structured and allows very few exchanges. Teams tend to be isolated in their respective markets and budget limitations don't permit them to travel across the continent and learn from each other. There is a role to play for governments and aid agencies in this area.

Impact definition and measurement is also a scope where major improvements should take place. Conceptual and academic work, dissemination of best practices, improvement of the technical and economic level of the staff of investment firms is an important area for engagement. There is little transparency on impact evaluation methodologies and effective results, and when this is the case, the quality level appears limited.

Fund managers and capital providers should innovate as far as compensation structure is concerned in order to align the team on the achievement of extra financial objectives, attract qualified and committed teams and take into account longer time frame to reach the objectives. This innovation could include extra financial KPIs to the carried criteria but also abandoning the classical 80/20 structure.

Impact investing has a major contribution to bring to the development of Africa. Its potential deserves more policy and operational focus from all development stakeholders, at the national, regional, and international levels. FERDI's work will try to assist this mobilization and the enhanced impact of this still fresh way of contributing to the financing efforts of the African continent in the years to come. It hopes to collaborate with all stakeholders interested in improving the volume and the quality of international and domestic financing for development in Africa.

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# Appendix

## A. Methodology to build the database

The database aims to highlight the current landscape of the impact investment in Africa and its recent evolution. Its purposes are to:

- Identify the impact investors operating in Africa;
- Quantifying the volume of impact investment in Africa;
- Analyze their operations by collecting information about their activity sectors of interest, the financial instruments they use, their geographical areas of interest;
- List the investors' portfolios in order to evaluate and analyze the investments' real impacts and their contributions to the SDGs fulfillment (in progress).

This database will help document the impact investment sector and create a new knowledge base on its development and ecosystem. Capitalizing on this information could guide and influence public policy and facilitate partnerships among the stakeholders of its ecosystem to promote the sustainable development of this type of investment in Africa.

### 1. Database characteristics

Data collection follows a rigorous methodology to ensure the relevance and pertinence of any information collected. Data collection begins with the identification of impact investors operating in Africa and is completed with the collection of basic information about each investor. The primary sources used to identify these investors are:

- In-depth online search in order to identify as far as possible the impact investors operating in Africa through website, investment platform, specialized database, reports and papers consultations.
- Specialized sources of impact investment in Africa such as academic research papers, and market research. These sources provide detailed information of impact investors, their operation, their strategies or even their impact thesis.
- Institutional database and reports from different actors such as the GIIN, or other foundations, financial institutions, governmental agencies providing information on impact investment and activity related in Africa.

A cross verification of the collected information was realized, when possible, in order to guarantee its coherence and exactitude. This comparison allows the identification of divergence or similitude in the collected information. However, when some divergence or contradiction is met, we rely primarily on the information provided by the investor himself. We will describe below the resources mobilized to list investors and extract their main characteristics.

## 2. Main sources to identify the list of investors

In order to create a base for our mapping, we capitalized multiple sources sequentially. Beyond the consolidation of these different data sources and the enrichment of the Chair's database with in-depth online research, the list of investors early retained was reviewed by two of the three promoters of the impact investing Chair who have a significant experience in the impact investment field especially in Africa. This method allowed us to exclude actors who do not meet our definition criteria. A second quality control was carried out to verify the data collected for each impact investors by emphasizing on the criteria used to define impact investors.

We present below these sources as well as their use in the creation of our database:

| *Main sources* | *Retained* | *Initial* | *% retained* | *% in the database* |
|---|---|---|---|---|
| *Fund database_ISF Advisors* | 8 | 132 | 6% | 3% |
| *Impact investing in Africa (JETRO)* | 16 | 40 | 40% | 6% |
| *Impact Investing in West Africa - Rockefeller Foundation* | 36 | 194 | 19% | 14% |
| *ImpactYield* | 24 | 514 | 5% | 9% |
| *Other* | 20 | 21 | 95% | 8% |
| *Regional west Africa impact investment_GIIN* | 5 | 75 | 7% | 2% |
| *Sizing the impact investing market 2022_GIIN* | 14 | 292 | 5% | 5% |
| *Burton et al. (2021)* | 61 | 275 | 22% | 24% |
| *Collaborative for Frontier Finance* | 34 | 83 | 41% | 13% |
| *In-depth online research and preliminary research* | 31 | 17 | 182% | 12% |
| *IETP* | 6 | 6 | 100% | 2% |
| ***Total*** | **255** | **1649** | **15%** | **100%** |

Note: Retained is the number of investors retained in the database. Initial is the absolute number of investors provided by the source. % retained in the ratio of the "Retained" to the "Initial" columns. % in the database reports the share of each source in the final database.

**ISF Advisor** is the leading strategic and financial advisory group committed to raising capital for a more sustainable, equitable and productive global food system. They produced a database of investors engaged in financing agricultural field around the world. Of the 178 funds identified, 140 declare operating in Africa or in multiple areas. Of these 140, we have so far identified **8 investors** compared to the other sources used.

**JETRO (2022)**, the Japanese government's foreign trade department, is an available mapping initiative of impact investors in Africa. Their last version listed 40 impact investors in Africa with exhaustive information on their portfolios (Countries, SDGs, sectors, amounts, exits). We retained **16 investors** out of 40 to be part of our database.

**The Rockefeller foundation (2011)**, is also a mapping initiative of impact investors around the world. They produce a list of more than a hundred actors in impact investing in addition to issues on the supply and demand side of impact investing. We retained **36 investors** out of 194 to be part of our database.

**ImpactYield** is an online database created for the professional committee of the impact investment field. They have a list of 514 funds, 348 assets managers and 1129 other actors worldwide. Their database allowed us to identify **24 investors**. It also helped supporting information on 35 investors already identified, particularly on the funds' size.

**The "other" category** is a combination of multiple unique sources, which are especially the investors' website. This category gathered **20 investors** identified through in-depth online research.

**The "In-depth online research and preliminary research"** category gathers the fruit of preliminary online research made during the launch of the FERDI's impact investing Chair; and in-depth online research via investors' website. It helped us to identify **31 new investors**.

**The GIIN** is a non-profit organization dedicated to enhancing the scale and effectiveness of impact investing. They produce different reports in order to highlight the investment approaches in the impact investment field. Through their annual surveys, they identified 367 impacts investors, we **retained 19** who meet our defined criteria qualifying an impact investor operating in Africa.

The **project led by Burton et al.** (2021) is a capitalization and enrichment of different existing financial databases. They were based on the GIIN or Global Impact Investor Network database, the list of impact funds from the CDVCA or Community Development Venture Capital Association, the list of "Impact assets 50" or the list of top investors, data from Preqin, members of the ICM or Impact Capital Managers and the PEI Awards or Private Equity International listing the Impact Investment Firm of the Year. The list of impact investors that makes up their database has been validated by experts but also cross-referenced with previous published reports and research. Thus, they excluded investors who do not explicitly communicate the purpose for societal impacts and financial returns. They analyzed various information: legal status, type of investment, and financial objectives. Their final database gathers information on 445 impact investors**.** In addition, a part of these impact investors' list is available in another paper written by the same authors (Cole et al., 2022), we were able to rely on this work. We initially checked their list of investors and by excluding impact investors with no activity in Africa and those who do not meet the criteria we defined in order to be qualified as an impact investor. Among the 275 investors listed in the article, we retained **61 investors**, which are impact investors operating in the African continent.

**Collaborative for Frontier Finance** has a network of impact investors, among the investors they are listing, we retained 34 investors.

**IETP** is a fund-of-funds and 6 impact investors are partners with IETP, we retained these 6 investors as they meet the impact investment criteria.

In most of the general sources mobilized to create our database, including those presented previously, the main challenge was to determine whether:

(i) the investors listed have the African continent within their scope of action

(ii) the investors meet the defined criteria with regard to the definition retained

(iii) the investors are actually private actors and not public ones[13].

## 3. Identification of investors

In order to only consider impact investors, we looked at the following criteria for their identification:

(1) Seek of financial return.
(2) Ex-ante seek of extra financial returns.
(3) Will to measure and publish the created impacts.
(4) Existence of a dedicated team, different from the asset managers' team (standalone entity).
(5) Effective activity in Africa: a percentage of their portfolio must be based in the African continent or at least having impact on the African continent through their investees' activities.

Each investor from the consolidated list obtained with the previous different sources has been the subject of extensive research through these mentioned criteria. A dummy variable was used to validate each criterion and those who did not meet the 5 criteria have been withdrawn from the mapping.

## 4. Information collected

When the consolidated version of the impact investors list has been edited, we collected basic information about them. Thus, the current database considers the following information:

- The **structure or funds' official name** as it is referred on their official website or other relevant sources when applicable.
- Verification criteria related to (i) the seeking of financial return, (ii) the seeking of social and environmental one, (iii) the willingness and ability to measure their impacts, (iv) having a dedicated team and (v) operations in Africa. These criteria are used as supporting evidence to include or reject an investor in the database.
- The **asset manager** when the funds' manager is not the investor.
- The **inception date:** the year when the structure or funds was legally formed.

[13] In our database, we excluded DFIs considering them as another category of actors financing development although they are supporting the private sector.

- The **type of investors**: a categorization based on the financial instruments they use to invest and according to their status (private, public or linked to a foundation).

- The **funds' size** in USD represented by the most recent amount of asset under management. This variable should be treated with caution for different reasons. First, the amount is reported at a precise moment. Second, as this information is often lacking, we consider the **total of current assets** which is already managed or will be managed by the investors at the end of the fiscal year; and the **funds' size** representing the total amount of assets that the investors can manage. The currency referred is the US dollar, the exchange rate used is from XE[14] and are those on December 31, 2023 in order to have an idea of their actual amount.

- The **funds' size category**: a classification of the funds' size into 4 groups related to their amount in USD: micro, medium, large and mega.

- The **geographical area of interest** representing the areas where investors invest. It is classified by regions: austral Africa, east Africa, west Africa, central Africa and north Africa. Whether the investors declare a country of investment/ portfolio included in one of these regions, the region in question is counted. The list of countries classified in these regions are as follows.

| North Africa (5) | West Africa (16) | Austral Africa (12) | East Africa (12) | Central Africa (9) |
|---|---|---|---|---|
| Tunisia | Benin | South Africa | Burundi | Angola |
| Libya | Burkina Faso | Botswana | Djibouti | Cameroon |
| Morocco | Ivory Coast | Comoros | Ethiopia | Gabon |
| Egypt | Gambia | Eswatini | Eritrea | Equatorial Guinea |
| Algeria | Ghana | Lesotho | Kenya | Central African Republic |
| | Guinea | Madagascar | Rwanda | Democratic Republic of Congo |
| | Guinea-Bissau | Malawi | Seychelles | Republic of Congo |
| | Cape Verde | Mauritius | Somalia | Sao Tome and Principe |
| | Liberia | Mozambique | South Sudan | Chad |
| | Mali | Namibia | Sudan | |
| | Niger | Zambia | Tanzania | |
| | Nigeria | Zimbabwe | Uganda | |
| | Senegal | | | |
| | Sierra Leone | | | |
| | Togo | | | |
| | Mauritania | | | |

- The **activity sectors** as declared by the investors or the sectors of interest of their portfolios. However, when this information is not available, the sector declared on the database is "multiple".

- **Investors' headquarters**: the country and continent where the investor is located.

- **Website link**: in order to refer the information sources facilitating the quality control procedure and their updates.

[14] From https://www.xe.com/en/

- The **primary data sources** for the sake of the quality control procedure.
- The portfolio of each investor: in which company or project they invest, where is the company located and in which African region. To date, we analyzed 74 investors' portfolio in order to have the geographical concentration of investors' activities in Africa. This work will be continued and will contribute to one of our next research agendas on the interrelations between African impact investors.

## 5. Limitations and extensions

The database developed by FERDI's Impact Investing Chair has some limitations related to the quality and completeness of the available data. Since the data collected is based on freely available data collected from various online sources, such as the Impact Investors Direct website, the database of foundations and organizations, our database is not exhaustive and not complete in terms of the 16 variables we aimed to collect. Moreover, it should be noted that each data entry is sensitive, as it has not been validated by the investors themselves. In fact, the 3 criteria used to validate the characteristics of impact investors - the search for financial returns alongside social and environmental ones, and the willingness and ability to measure their impact - are based on declarative information. Their impact measurement can be questioned, but will be the subject of FERDI's research agenda. In addition, the comparability of data, especially financial data, should be treated with caution due to the different sources and proxies used.

A current extension of the database is to identify the portfolio of each investor. To do this, we use public information provided by investors on their website or in official documents. To date, we have researched 150 investors. For 74 of them, we were able to extract granular information on their portfolio, representing 1,148 investees.

## B. Interviews

In addition to data collection, we conducted a series of interviews with some of the investors identified through our methodology. The aim is to compare the data collected with the investors' speeches, but also to gain a deeper understanding of their vision, perspectives and challenges in the African market.

We contacted twenty impact investors by email in February 2024, sending them a prepared questionnaire with the information requested by the Chair and asking for a 30-minute meeting. As impact investors in Africa are both French and Anglo-Saxon, two versions of the email and questionnaire were prepared.

We received 7 positive responses, but only 6 had availability. We conducted the interviews via Teams, an online exchange application.

*Investors interviewed:*

- Livelihoods Venture,
- Gaia Impact Fund,
- Acumen,
- Bestseller Foundation,
- I&P.

*Investors contacted but not interviewed:*

- Novastar Ventures,
- Business Partners International,
- GroFin Africa Fund,
- XSML Capital,
- Danone Communities,
- E3 Capital,
- The Rise Fund,
- Africa Guarantee Fund,
- Aceli Africa,
- Accion,
- AlphaMundi,
- Bluegrass Partners,
- Aqua-Spark,
- iGravity,
- Co-creation Hub.

*List of questions:*

### 1. General information about the investor

i. Mission and objectives

What is your organization’s main mission and how is it reflected in your activities?

What key objectives do you aim to achieve through your investments?

ii. Investment strategy

Could you describe your investment strategy and the financial instruments used in your investments?

How do you identify and select projects or companies for investment? What criteria are applied?

iii. Definition and approach as an impact investor

Why does your organization identify itself as an impact investor? What criteria are considered crucial for this role?

How do you assess the impact of your investments? Are there defined priority indicators? What is your Internal Rate of Return (IRR)?

iv. Collaborations and partnerships

Do you participate in any investors club and engage with other investors, organizations, or institutions in Africa or elsewhere? If so, what is the nature of these interactions?

What is your perspective on the role of partnerships in achieving your objectives?

**2. The investor and their point of view of the African market**

i. Vision for African development

What vision does your organization have for contributing to the development of the African continent through its investments?

According to you, which sectors or areas are considered priorities for African development? In which sectors do you invest?

As an impact investor, how significant is the African market to your strategy? What potential do you see for impact investing in Africa?

ii. Challenges and opportunities

What are the primary challenges you encounter as an impact investor in Africa, and how do they differ from challenges in other investment regions?

Can you identify specific opportunities for the impact investing field on the African continent?

iii. Future perspectives

What future plans or projects does your organization have in Africa?

How do you foresee/anticipate the evolution of impact investing in Africa in the upcoming years, and what role do you expect to play?

**3. Additional comments**

Are there any other information or comments you would like to share?

## C. Data description of financial flows

### 1. Sources of data

*Net official development assistance received (current US$)*

Net official development assistance (ODA) consists of disbursements of loans made on concessional terms (*reflecting only the newly made available funds for aid, without considering the loans repaid to the official lender*) and grants by official agencies of the members of the Development Assistance Committee (DAC), by multilateral institutions, and by non-DAC countries to promote economic development and welfare in countries and territories in the DAC list of ODA recipients. In another term, official development assistance designates the funding provided by public entities to improve living conditions in countries with low or intermediate income. In order to better reflect the real efforts of these agencies, ODA loan is no longer measured by their nominal value but by its grants-equivalent.

*Foreign direct investment, net inflows (BoP, current US$)*

Foreign direct investment refers to direct investment made to acquire a lasting interest in or a significant degree of influence over an enterprise operating outside of the economy of the investor. Ownership of 10 percent or more of the ordinary shares of voting stock is the criterion for determining the existence of a direct investment relationship. This series shows net inflows of investment from non-resident investors in the reporting economy including equity capital, reinvestment of earnings, and short- and long-term inter-company loans between parent firms and foreign affiliate other capital. It is a category of cross-border investment associated with a resident in one economy having control or a significant degree of influence on the management of a firm that is resident in another economy. Presented in its net value, this series refers to the difference between incoming and outgoing capital in a certain area for a given period.

*GIIN's total impact investors AUM*

For the sake of offering some insights on impact investing industry, their activities and financial performances, the GIIN conducts an analysis based on a database of 308 impact investors globally. In order to establish this list, they drew up an inventory of potential impact investors from several datasets, before subjecting them to verification according to the GIIN's definition of impact investing:

- GIIN past research studies,
- IRIS+ system,
- Impact Classification System,
- Phenix Capital Group,
- Pitchbook,
- And National Community Investment Fund (NCIF).

The GIIN states that impact investing is reflected by a clear intent to create positive environmental or social impact, actively measure the impact results of their investments and seek financial return.

They forward to over 2000 impact investors a survey in order to collect the expected data, such as non-impact AUM and impact AUM, and other general information about the investors by a system of self-report response. However, the list retained excluded inconsistent and incomplete data from the survey's respondents and also removed AUM outliers that fall further than 1,5 times standard deviation away from the mean for some quantitative analysis. In addition, only those managing at least USD 10 million in impact investing assets or made at least 5 impact investments, and those making only direct investments are kept in the final sample of 308 impact investors.

Nevertheless, even if the sample retains only investors making direct investments, the assets data collected may include both assets invested directly and indirectly and some double counting issues may be present. This distinction isn't always done by investors when declaring their assets. Moreover, as the survey was conducted in English, it may constitute a limit in investors participation and the sample is then not representative. For these reasons, the AUM data mobilized in table 3 should be treated and interpreted cautiously, also, they only represent "*impact* assets" from 88 impact investors who provided data to both the 2018 and 2023 surveys.

The final sample analyzed by the GIIN lists different types of investors:

- Investment managers (71%),
- Foundations (11%),
- Development finance institutions (5%),
- Family offices (5%),
- Banks (2%),
- Insurance companies (2%),
- Endowments (2%),
- Pension funds (1%),
- Sovereign wealth funds, diversified financial institutions, corporations (1%).

Limitation of GIIN data: The GIIN provides an evaluation of financial flows from impact investors. However, these data should be treated with caution for several reasons. First, these data were obtained through survey and only based on declarative information while being non-exhaustive and not covering all impact investors. Second, data lack of granularity, particularly in terms of geography. As instance, GIIN reported in 2018 that their survey respondents represented USD 228.1 billion in assets under management (AUM) and of this, 56%, or USD 127.7 billion, was allocated to emerging markets. The raw data are not accessible and do not allow in-depth analysis. Finally, the AUM is considered as a stock and not a flow.

*FERDI's total AUM*

FERDI's database aims to offer an overview of impact investing system in Africa. The impact investing Chair collected the funds' size of each investor in USD represented by the most recent amount of asset under management. This variable should be treated with caution for different reasons. First, the amount is reported at a precise moment, the AUM is considered as a stock. Second, as this information is often lacking, we consider the total of current assets which is already managed or will be managed by the investors at the end of the fiscal year; and the funds' size representing the total amount of assets that the investors can manage. The currency referred to is the US dollar, the exchange rate used is from XE[15] and they are those in 2022 in order to have an idea of their actual amount.

Compared to the variable used by the GIIN, the AUM collected in our database do not make a difference between impact AUM and non-impact AUM.

## 2. Methodological drawbacks

The purpose of Part 2 of this report is simply to compare the broad magnitude of the financial flows included in our analysis. However, the comparison between the different flows should be treated with caution.

*Net vs. gross*: FDI and ODA flows are net flows, while impact investing flows are gross flows. As a result, both flows are not directly comparable.

*Stocks vs. flows*: Impact investing data are assets under management, which is a stock, while ODA and FDI are flows. Flows and stocks are two fundamentally different financial concepts. Stock is a measure at a point in time, while flow measures movement or activity over a period of time. Comparing these concepts does not provide a meaningful comparison and does not lead to a meaningful interpretation. In fact, stock is a cumulative value at a point in time, while flow accumulates activity over time. As a result, we rely on the growth rate.

[15] https://www.xe.com/en/

## D. List of impact investors in the FERDI's database

*Abadali EEIP*
**Accion*
*Aceli Africa*
*Actawa Ventures*
*Activity Venture Finance Company*
**Acumen Fund*
**ADAP Capital*
*Africa Finance Corporation (AFC)*
*Africa Growth Fund*
**Africa Plus*
*African Equity Empowerment Investments Limites (AEEI)*
*Afrishela*
*AgDevCo*
*AGF*
**Agri-Vie Africa Investment Fund*
**Alitheia Capital*
**All On*
*Allumez Capital*
*AlphaMundi*
*Alteia Fund*
*Alterfin*
*Annan Capital Partners*
*Annona Sustainable Investment Fund*
*Anza Capital*
**Aqua-Spark*
**ARCH Emerging Markets Partners Limited*
**Aruwa Capital*
**Ascent Africa*
**Asia Africa Investment & Consulting (AAIC)*
*Asiki capital*
**ASISA ESD Fund*
*Atlantica Ventures*
**AV Ventures*
*Aventura Rural Enterprise Fund*
*Balloon Ventures*
**Bamboo Capital Partners*
*Barak Fund Management*
*Barka Fund*
*Berkeley Energy*
**Bestseller Foundation*
**Blue Haven Initiative (Blue haven ventures/initiatives)*
*Bluegrass Partners*
*BlueOrchard Finance*
**BluePeak Private Capital*
*Brightmore Capital*
*Broad Cove Capital*
*Business Partners International (Small Business Development Corporation Ltd)*
**BWiz Capital*
*Cadiz-GreaterCapital JV SRI Bound Fund*
*Capital Canada Investment Fund for Africa (CIFA)*
**Capria Ventures*
*Catalyst investment management*
**Cathay Innovation*
**Ceniarth*
*Clean Energy Ventures*
**Climate Fund Managers*
**Co-Creation Hub*
**Comoé Capital*
*Convergence Partners (Africa)*
*Cordaid Investments*
*Cordiant Capital*
*COSEF invest*
**Criterion Africa Partners (Former Global environnment fund)*
*Cygnum Capital*
*Danone communities*
**DBL Partners (Double Bottom Line venture capital)*
*Developing World Markets*
**Développement international Desjardins*
**Di Frontier*
*Digital Africa Ventures*
**Dob Equity*
**DOEN Participaties*
**Doreo Partners*
**Draper Richards Kaplan Foundation*
*E3 Capital (formerly Energy Access Ventures)*
*East African Agriculture Fund LP*
*Eco business fund*
**Edge Growth*
*Eklavya Growth and Impact Fund1*
**Endeavor Catalyst*
**Ennovent*

*Envest Microfinance Fund, LLC*
**Enygma Ventures*
*eVentures Africa Fund*
**EWB Ventures*
*Export Capital / ACRE impact capital*
**Factor E*
*Fairtrade access fund*
**FINCA Ventures*
*First Circle Capital*
*First Funds Limited*
**Fledge*
**Flint Atlantic Capital*
*FyrefEM Fund Managers*
**Gaia Impact Fund*
**GAWA Capital Partners*
*Gemini Capital Partners*
**Global Partnerships*
**Global Social Impact (GSI)*
*Gold Venture Capital Limited*
**Goodwell Investments*
**Grassroots Business Fund*
**Gray Matters Capital (GMC)*
*Green for growth fund*
*Green Investment Group (UK)*
*GreenDreamCompany*
**Greenhouse Capital*
**Greenlight Planet / Sun King*
*GroFin Africa Fund*
**Growth Capital Fund*
*Hacked Capital*
*Health in Africa Fund*
*Heart Capital*
*HEVA Fund*
**Hivos-Triodos Fund*
**I&P Investment Company*
*ICF Debt Pool*
*Ignite Fund*
*iGravity*
**Impact-Linked Finance Fund*
*"Impacto Capital*
*Incofin Investment Management*
**Inerjys Ventures*
**InfraCo Africa*
**Injaro Investments*
*Inoks Capital*
**Inspired Evolution Investment*
**International Housing Solutions*
**Inua Capital*
*Invest in Visions*
**Invested Development*
**Investment Fund for Health in Africa*
*Iungo capital*
*iYa Ventures*
*Jacana Partners*
*Janngo*
**Jasmine Social Investments*
*Jaza Rift Ventures*
*JCS Investment Limited*
*Jenga Capital*
*KawiSafi Ventures*
*Kenya Climate Ventures*
*Kukula Capital*
*Kuria Foundation for Social Enterprise*
**LeapFrog Ventures*
*Liberia Enterprise Development Fund*
**Lightrock*
*Livelihoods Fund*
**LoftyInc Capital Management*
**Lorax Capital Partners*
*Makeda Fund*
*ManoCap Soros Fund*
*Media Development Investment Fund*
*Medical Credit Fund*
*Mennonite Economic Development Associates (MEDA) - MEDA Risk Capital Fund*
*Mercy Corps Ventures*
*MEST*
**Miarakap*
*Microtraction*
*MicroVest Capital Management*
*Minerva Capital Group*
*Mirepa Investment Advisors*
*Mirova*
*Modern Africa Fund*
*Moringa*
*Neper Ventures*
*Nesa Capital*
*New Forests*
*Next Wave Impact / next wave africa*
*NextEnergy Capital*
*Nordic Impact Funds*
*Norsad Capital*
*Novare Holdings (Pty) Ltd*
*Novastar Ventures*
*Obviam / Asteria Investment Managers*

*Oikocredit Ecumenical Development Cooperative Soc*
*Omidyar Network*
*Open Road Alliance*
*OPES- LCEF*
*Ortus Africa Capital*
*Palladium Impact Fund 1*
*Pamoja Capital*
*Pearl Capital Partners*
*Persistent Energy Capital*
*PhiTrust Partenaires*
*Progression Capital Africa*
*Quona Capital*
*Rabo Rural Fund*
*RENEW Capital*
*ResponsAbility*
**SAB Thrive Fund*
*Sahel Capital*
*SAIL Ventures*
*Samata Capital*
*Samawati Capital Partners*
*SANAD Fund for MSME*
*Scarab Green Real Assets Fund (SGRAF)*
*Secha Capital*
*Secha Capital Partners*
*Shared Interest.*
*ShEquity Partners*
*Silverlands Fund / silverstreet capital*
**Sinergi Burkina*
**Sinergi Niger*
*Small Enterprise Assistance Funds (SEAF)*
*Social Alpha*
*Social Impact Managers*
*Social Venture Fund*
*Soros Economic Development Fund*
*SOVEC Fund*
*SPE Capital*
*Summit Development Group*
*Symbiotics*
*Teranga Capital*
*Terra Global Investment Management*
*The Entrepreneur's Empowerment Fund*
*The Rise Fund*
*Third Sphere*
*ThirdWay Africa Partners*
*Treehouse Investments, LLC*
*TriLinc Global, LLC*
*Trine*
*Triodos Investment Management*
*Triple Jump*
*Truestone Impact Investment Management*
*Truvalu*
*Tshiamo Impact PARTNERS*
*UFF African Agri Investments*
*UNEP AREED*
*Universal Green Energy Access Program*
*Universities Entrepreneurial Fund*
*Unreasonable Capital*
*Unvonventional Capital*
*Vakayi Capital*
*Verde Ventures*
*Veris Investments*
*VestedWorld*
*Village Capital*
*Villgro Africa*
*Vital Capital Fund*
*Voxtra East Africa Agribusiness Fund*
**Vumela*
*Wangara Green Ventures*
*WaterEquity*
*WEAV Capital*
*West Africa Agricultural Investment Fund*
*West Africa Venture Fund*
*Whole Planet Foundation*
*WIC Capital*
*Willow Impact Investors*
*XSML Frontier Inverstors*
*Yunus Social Business*
*Zebu Investment Partners*
**Zira Capital*
*Zoscale Partners*

*Signals funds for which we have been able to collect portfolio data.

*"Sur quoi la fondera-t-il l'économie du monde qu'il veut gouverner ? Sera-ce sur le caprice de chaque particulier ? Quelle confusion ! Sera-ce sur la justice ? Il l'ignore."*

**Pascal**

FERDi

Created in 2003 , the **Fondation pour les études et recherches sur le développement international** aims to promote a fuller understanding of international economic development and the factors that influence it.

**Contact**
www.ferdi.fr
contact@ferdi.fr
+33 (0)4 43 97 64 60